BRITISH TELECOMMUNICATIONS plc

Annual Report & Form 20-F 2017

As wholly-owned subsidiary of BT Group plc, British Telecommunications plc meets the conditions set forth in General Instruction (I) (1)(a) and (b) of Form 10-K as applied to reports on Form 20-F and is therefore filing this Form 20- F with the reduced disclosure format.

CONTENTS

The strategic report

This is the BT plc Annual Report for the year ended 31 March 2017. It complies with UK regulations and comprises part of the Annual Report on Form 20-F for the US Securities and Exchange Commission to meet US regulations.

Please see the cautionary statement regarding forward-looking statements on page 227.

In this document, references to 'BT', 'BT plc', 'the group', 'the company', 'we' or 'our' are to British Telecommunications plc and its subsidiaries and lines of business, its internal service unit, or any of them as the context may require. References to 'BT Group plc' are to BT plc's ultimate parent company.

A reference to a year expressed as 2016/17 is to the financial year ended 31 March 2017 and a reference to a year expressed as 2017 is to the calendar year. This convention applies similarly to any reference to a previous or subsequent year. References to 'this year', 'the year' and 'the current year' are to the financial year ended 31 March 2017. References to 'last year' and the 'prior year' are to the financial year ended 31 March 2016.

OVERVIEW

British Telecommunications plc is the principal operating subsidiary of BT Group plc. We're a wholly-owned subsidiary of BT Group plc. The BT Group plc Board has ultimate responsibility for the management of the group while the Operating Committee of BT Group plc is our key management committee. It monitors the group's financial, operational and customer service performance and has cross-business oversight of BT's lines of business. It also reviews the group's key risks and considers potential threats and opportunities facing the business.

Strategic progress

- Focused on improving customer experience across the group.
- EE integration is going well, we're ahead of target on first-year cost synergies.
- Restructuring announced, accelerating our cost transformation. See page 9.
- Continued investment for growth and aspiration to become the UK's digital champion.

See page 4 to read more about our strategy

Openreach

- Enduring and comprehensive agreement reached with Ofcom on future Openreach governance. See page 30.
- Openreach board created with Mike McTighe appointed as Openreach chairman.
- Ofcom's investigation into the historical use of Deemed Consent by Openreach resulted in a £42m fine and c£300m of compensation payments that will be paid in 2017/18. See page 32.

See page 80 to read more about Openreach

Our investigation into our Italian business

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

To respond, our actions have included:

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

See page 88 to read more

Market environment

Headwinds in the UK public sector and international corporate markets.

Low interest rate environment increasing our IAS 19 pension deficit by £2.4bn net of tax. See page 97.

EE integration
Cross-selling opportunities being realised

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

c£150m per annum run-rate cost synergies achieved in first year

- Ahead of £100m target due to synergies being realised early.
- Early focus on renegotiating supplier terms, insourcing and estate rationalisation.

Taking the best of both cultures
See page 89 to read more about the EE integration

BT Sport
BT Sport won exclusive rights to UEFA Champions League and UEFA Europa League until the end of 2020/21 season.

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

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

To enable this strategic repositioning, we are restructuring our Global Services organisation to a simpler operating model. This will involve a two-year restructuring of our operations, the costs of which will be treated as a specific item. See page 9.

The **Purpose and strategy, Delivering our strategy, Our lines of business** and **Group performance** sections on pages 4 to 98 form the **Strategic report**.

We present the **audited consolidated financial statements** on pages 109 to 180.

OUR STRATEGY

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

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

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

The three pillars of our strategy help us build these relationships, providing great customer experience, transforming our costs and enabling us to invest for growth in the process. They work together: the better our customers' experience, the more we'll sell and the less time and money we'll spend putting things right. And the better we manage our costs, the more we can invest in improving our customers' experience and in products and services that will create growth.

OUR STRATEGY IN A NUTSHELL

The diagram below shows the main elements of our strategy and how they work together to support our purpose and goal. More details on our purpose and goal, in the context of our business model, can be found on page 11.

HOW WE'RE DOING

DELIVERING GREAT CUSTOMER EXPERIENCE

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

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

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

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

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

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

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

A great customer experience from our network
- We've improved the weather proofing of our networks. This year we've halted the growth in network faults following six consecutive years of increasing faults.
- Global Services is enabling better monitoring of network, IT and applications.
- Openreach is offering to connect fibre-to-the-premises for free to all developments of new sites with over 30 plots[a].

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

[a] New sites with over 30 plots registered from 10 November 2016.

Our top priorities
Looking ahead, we're focused on:

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

INVESTING FOR GROWTH

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

Differentiated content, services and applications	Best network in the UK	Fully converged service provider	Market leadership in all UK segments	Focus on multinational companies globally
Launch of BT Smart Hub	26.5m premises passed with fibre See page 85	£150m cost synergies in the first year of EE integration See page 89	37% retail broadband share See page 58	180 countries See page 68
Launch of BT Family SIM	G.fast pilots in 17 locations See page 85	BT Sport made available to EE customers	29% mobile market share See page 60	Cloud of Clouds See page 69
BT Sport viewing up 12%	80% of UK landmass now covered by 4G See page 60	£1.6bn target Net Present Value of revenue synergies from EE acquisition	W&V W&V named Best Wholesale Operator[a] See page 74	NFV Network Function Virtualisation See page 69
My BT, My EE app improvements	5G research with a range of partners See page 22	Trial of selling BT products in EE shops	3.8m mobile customers of Mobile Virtual Network Operators we support See page 73	SDN Software Defined Networking See page 69

[a] MVNO World Congress 2016.

TRANSFORMING OUR COSTS

OUR APPROACH TO COST TRANSFORMATION

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

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

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

Training is an important part of our approach, led by our in-house Cost Transformation Faculty, part of the BT Academy (page 51). The faculty is responsible for the continued development of both our change methodology and our 'change professionals'.

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

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

Programmes this year included:
- realising the cost synergies created by bringing together BT and EE, including buying synergies, rationalising our property estate, insourcing roles in both IT and networks, and creating a shared call centre planning function for the group;
- re-engineering important processes to improve our delivery of Ethernet, which has led to shorter lead times, higher output and improved quality of delivery;
- reducing our network costs in the UK and overseas by consolidating our technical facilities and deploying tools to better manage third-party costs; and
- reviewing the operating model for main areas of our business, see page 68 and below.

Our top priorities
Looking ahead, we're focused on:

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

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

[a] Lean is a methodology for achieving small, incremental changes in processes in order to eliminate waste and improve efficiency and quality.
[b] Six Sigma is a data-driven methodology for eliminating defects in processes.

KEY PERFORMANCE INDICATORS

We've achieved our customer service performance goal for the year, but need to do better. The issues in our Italian business and headwinds in UK public sector and international corporate markets impacted our financial performance.

Progress against our KPIs

We use three key performance indicators (KPIs) to measure how we're doing against our strategy. Our financial KPIs measure the trend in underlying revenue excluding transit adjusted for the acquisition of EE and adjusted EBITDA. Customer service improvement is the key non-financial KPI for us.

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

You can find reconciliations of the financial measures to the closest IFRS measure in the Additional information section on pages 225 to 227.

Trend in underlying revenue excluding transit

Our key measure of the group's revenue trend, underlying revenue excluding transit adjusted for the acquisition of EE, was down 0.2%[a] (2015/16: up 1.9%[b, c]).

Performance

Our revenue performance has been heavily impacted by the challenging conditions we've seen in the UK public sector and international corporate markets. This was offset by strong performance in our customer-facing lines of business driven by EE and Consumer. We explain more about the performance of our lines of business from page 53.

Definition

Underlying revenue reflects the overall performance of the group that will contribute to sustainable profitable revenue growth. We exclude the impact of specific items, foreign exchange movements and disposals and from 2016/17 this measure is calculated as though EE had been part of the group from 1 April 2015. This differs from how we usually adjust for acquisitions as explained on page 225. We focus on the trend in underlying revenue excluding transit because transit traffic is low margin and is affected by reductions in mobile termination rates, which are outside our control.

Adjusted EBITDA

Adjusted EBITDA was up 18% (2015/16: 4%). This reflects 10 extra months of EE results.

Adjusted EBITDA is defined as group profit before depreciation, amortisation, net finance expense, taxation and is before specific items. We consider adjusted EBITDA to be a useful measure of our operating performance because it approximates the underlying operating cash flow by eliminating depreciation and amortisation.

Customer service improvement

Our customer service measure Right First Time was up 6.4% compared with down 3.0% last year.

Performance

Improving the service we deliver is key. Our Right First Time measure was up 6.4% (2015/16: down 3.0%). We're making good progress in some areas. Openreach achieved, or is on track for, all 60 of the minimum service levels (MSLs) set by Ofcom for copper, but disappointingly we missed one of the six MSLs for Ethernet. Despite these improvements, we're not where we want to be, across all of our lines of business. You can read more about our customer service on page 6.

Definition

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

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[a] Calculated as through EE had been part of the group from 1 April 2015.
[b] Calculated as though EE was not part of the group until 1 April 2016.
[c] Certain prior year results have been revised to reflect the outcome of the investigation into our Italian business. See note 1 to the consolidated financial statements.

OUR BUSINESS MODEL

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

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

The resources and relationships that set us apart

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

£6,179m
net cash inflow from operating activities in 2016/17

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

106,400
employees

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

26.5m
premises passed by our fibre footprint

5.6m
BT Wi-fi hotspots

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

c.£520m
R&D spend

102
patents filed

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

790,000
shareholders

Our brand
Our brands are a key asset.

$18.6bn
Millward Brown valuation of the BT brand

Natural resources
We use some natural resources in doing business.

82%
of the worldwide electricity we buy comes from renewable sources

What we do

How we're organised

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

Customers

Consumer	EE	Business and Public Sector
Global Services	Wholesale and Ventures	Openreach
Technology, Service & Operations		

Stakeholder outcomes

Customers

6.4% improvement in Right First Time performance

2m BT Call Protect customers

Community

£35.6m investment in society

31% BT volunteer people

£471m UK corporation tax

£95m raised for good causes

Employees

71% Employee engagement outcome

88% maternity return rate

52% saveshare participants

6% improvement in sickness absence

Suppliers

£14.1bn spent with suppliers

65% with top 100 suppliers

WHAT WE DO

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

Our purpose, goal and strategy

Our purpose

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

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

Our goal

Our goal is growth, in particular the creation of sustainable, profitable, revenue growth. We aim to achieve profitable revenue growth by delivering both a great experience and valued products and services to our customers. Profitable revenue growth, combined with continued transformation of our cost base and productivity, will drive strong, sustainable operating cash flow.

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

Our strategy

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

The three pillars of our strategy help us build these relationships, providing a great customer experience, transforming our costs and enabling us to invest for growth in the process. They work together: the better our customers' experience, the more we'll sell and the less time and money we'll spend putting things right. And the better we manage our costs, the more we can invest in improving our customers' experience and in products and services that will create growth.

Investing in what sets us apart

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

Some investments, such as TV sports rights (page 54), have a lifespan of just a few years. Other investments, such as our fibre broadband network, are much longer term, with a pay-back period that lasts more than a decade.

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

Our most important resources and relationships are described from page 15.

Selling services integral to modern life

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

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

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

We use a range of channels to sell our products and services, including online, contact centres and account managers. We also have around 570 EE shops in the UK.

Our revenue is mostly subscription or contract-based. Individuals, households and SMEs pay for standalone or bundled services, typically on 12-to 24-month contracts. Large corporate and public sector customers usually buy managed networked IT services on contracts spanning several years. Our wholesale customer contracts range from one month for regulated products, to five years or more for major managed services deals.

Creating value for all our stakeholders

Generating strong cash flow enables us to invest in the business, reduce net debt, support our pension fund and pay progressive dividends (see page 15).

But there's much more to what we do than just making money. What we do matters. It helps millions of people communicate, enjoy entertainment, do business and generally live their lives. We help our customers reduce their carbon footprint and we contribute directly to communities and the health of the UK by providing jobs, supporting suppliers, paying tax and encouraging our employees' volunteering activities.

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

Oversight and governance

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

- have a framework to identify and mitigate the challenges we face (see page 36);
- use 'insight' teams to make sure we stay in tune with market opportunities and customer expectations;
- undertake an annual materiality review to understand the social and environmental issues that are important to our stakeholders; and
- use governance committees, such as our Design Council, to make sure we're making the right investments.

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

Design Council

The Design Council is a sub-committee of BT Group plc's Operating Committee. It normally meets monthly and is responsible for aligning our capital investments in our networks, systems, platforms and products so that they reflect our strategy, serve the needs of our customers and are delivered cost-effectively.

RESOURCES, RELATIONSHIPS AND SUSTAINABILITY

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

FINANCIAL STRENGTH

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

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

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

Deliver sustainable profitable revenue growth

Grow EBITDA

Grow free cash flow

Invest in business	Reduce net debt	Support pension fund	Pay progressive dividends

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

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

Our financial strength also means we can support the business in other ways, for example by making sure we continue to innovate and stay at the forefront of a rapidly-changing industry, and by investing in the training, development and support of our people.

OUR PEOPLE

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

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

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

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

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

This led us to three words:
Personal
Simple
Brilliant

Everyone in BT has a role to play in bringing these values to life. That's how we'll deliver on our purpose and use the power of communications to make the world a better place, every single day. This year we were deeply disappointed with the improper practices of a few individuals in our Italian business and the investigation into historical Deemed Consent which identified poor processes at Openreach. We know the vast majority of our people want to do, and will do the right thing, but this highlights the necessity to live our new values and work in an ethical way at all times.

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

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

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

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

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

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

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

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

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

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

Hiring more apprentices

We hired 900 new apprentices across the group in 2016/17. Our contribution to the new Apprenticeship Levy fund means we're able to offer more apprenticeship opportunities than ever before-over 2,000 next year.

Investing for growth
At BT, we never stop learning – whether that's on the job, with colleagues or in a formal training environment. It's how we adapt to a changing world and rise to the challenges of tomorrow.

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

EE was voted in the Top 3 in the Sunday Times Top 30 Best Big Companies to Work For 2017 awards.

AWARDS WON THIS YEAR

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

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

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

Leadership

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

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

Future leaders

Develops high-potential people, enabling them to become leaders for the first time.

Connected leaders

Launching in 2017/18, Connected Leaders emphasises the importance of connection with our customers, our people and different parts of our organisation as the key to creating a truly aligned BT.

Engaging our people

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

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

	SCORE	PERCENTAGE CHANGE SINCE PREVIOUS SURVEY
Engagement outcome	71%	–1%
Leading our people	53%	–1%
Managing our people	78%	+3%
Empowering and equipping our people	58%	+3%
Enabling outstanding customer experience	59%	+3%
Working together	60%	+4%
Personal growth	69%	+3%

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

Challenge Cup

Challenge Cup is our flagship people engagement programme. It's an annual competition that encourages people to work as a team to develop new ideas that improve customer experience, save money and create innovation. Our people genuinely love it. The number of people taking part increases every year – this year more than 5,500 people came together to form over 1,100 teams across 28 countries, including people entering the competition for the first time.

Volunteering

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

This year more than 31% of our people spent over 39,000 days volunteering their time, with more than 2,000 people helping children and young adults improve their skills through our Tech Literacy and Work Ready programmes (see page 25).

Diversity at work

Diversifying the mix of our people continues to be a priority within our people strategy. We're particularly keen to encourage women into technology careers through our Tech Women programme.

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

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

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

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

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

We are a 'Disability Confident'[b] employer and we actively encourage the recruitment, development and retention of disabled people. We'll automatically put an applicant with a disability or long-term health condition, who meets the minimum criteria for a vacancy, through to the first stage of a recruitment process.

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

Promoting wellbeing

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

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

Our sickness absence rate was rising but we've turned that around this year and it's now dropped by 6%. We've made particular progress in reducing mental ill health, which is down by 13% (excluding EE). Our other main sickness area is musculoskeletal disorders; in response we've developed a major initiative to help people avoid strains that's part of our wider Fit for Life campaign. We're pleased to say that in January we hit our five-year target of getting 10,000 people more active three years early.

We've extended our programmes to EE which has already helped bring sickness absence down across BT. We're always looking for ways to improve, and have introduced prehabilitation – designed to shorten recovery time for our people

[a] http://race.bitc.org.uk/all-resources/research-articles/race-work-report
[b] Disability Confident is an accreditation which includes Two Ticks that is given to organizations that are committed to employing disabled people.

undergoing surgery. In short, we know that keeping our people healthy and happy is good for them, good for business and good for society.

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

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

Our executives may also get long-term share awards to reward the creation of shareholder value. The value they ultimately get is determined by the group's performance over a three-year period. Executive directors must retain incentive shares for a further two-year period.

In line with regulatory obligations, incentives for people in Openreach are tied to a combination of personal contribution and Openreach's performance, rather than that of the wider group. These incentives are paid in cash, as opposed to BT shares.

We support our people by providing a range of retirement savings plans and country-specific benefits. In the UK, our main defined benefit scheme is the BT Pension Scheme, while our main defined contribution scheme is the BT Retirement Saving Scheme. You can read more about these on page 97.

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

OUR NETWORKS AND PHYSICAL ASSETS

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

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

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

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

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

We're selectively expanding the reach of our network to support multinational companies in other regions. Virtual private network (VPN) services are integral to our 'Cloud of Clouds' vision (see page 69). They provide the convenience and security of a private network but over the public internet. We use our MPLS network together with a combination of owned and leased fibre connections to connect our points of presence (PoPs) around the world. For the final connection into the customers' premises, we either use our own circuits, or lease connections from telecoms operators in that country. Where we need to serve customers in very remote locations, we make use of our extensive satellite connections.

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

The EE network is the UK's largest 4G network, now covering 80% of the UK's geography and reaching over 99% of the population

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

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

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

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

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

Progress this year
This year we've:

- upgraded almost 500 mobile basestations to offer up to 360Mbps. We've also switched on our first Gigabit-enabled basestations in London, with Cardiff following in April 2017;
- addressed the growing demand for digital transformation through the introduction of a cloud-based unified communications service for business customers offering voice, messaging, conferencing and presence;
- demonstrated a world-record speed of 2Tbps over a 700km live network fibre between London and Dublin. This gives us confidence that our core network will be able to cope with the growth of data traffic; and
- demonstrated the first live customer trial in Europe delivering increased capacity by using three different passive optical network technologies over the same fibre.

Service platforms
We run a number of service platforms that combine our network and IT resources. They underpin many of the key products we offer.

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

Progress this year
This year we've:

- extended our BT Sport app to provide extra features during Premier League and FA Cup matches;
- added Dolby Atmos surround sound to Ultra HD football matches; and
- carried over one billion minutes per month on our BT Conferencing service platform.

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

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

Progress this year
This year we've:

- introduced systems and processes that mean we can sell BT products to EE customers; and
- delivered the technology behind the new BT Call Protect Service (page 54).

PROPERTIES

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

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

In the UK, we've been busy rationalising office space, vacating offices in Belfast, Darlington, Langley, Leeds, Newcastle-under-Lyme and the former EE headquarters building in Paddington.

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

RESEARCH AND DEVELOPMENT

Commercial success increasingly depends on innovation – that's why we invest so much in research and development (R&D). The result is a track record of scientific breakthroughs, engineering successes and commercial progress.

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

www.btplc.com/Innovation/Innovationstory/index.htm

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

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

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

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

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

[a] Comparison based on total R&D spend 2006/07 to 2015/16.
Source: EU Industrial R&D Investment Scoreboard, http://iri.jrc.ec.europa.eu/scoreboard.html

We've extensive, long-standing, joint-research programmes with Cambridge University (UK), Massachusetts Institute of Technology (US), Tsinghua University (China), Khalifa University (UAE) and over 30 other universities globally.

Innovation milestones

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

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

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

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

1984
We installed the worlds's first 140Mbps commercial single-mode optical fibre link between Luton and Milton Keynes.

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

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

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

Tommy Flowers Institute
This year we launched the Tommy Flowers Institute, a new Higher Education ICT training institute at Adastral Park.

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

5G
We're working with a range of partners to deliver our 5G service ambitions, conducting trials of 5G-ready radio equipment at BT labs.

Examples of our R&D activities this year include:

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

EAD Rapid
Ethernet Access Direct (EAD) is Openreach's Ethernet product, offering data rates from 100Mbps to 10Gbps on a single fibre (see page 83).

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

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

BRAND AND REPUTATION

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

BT

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

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

In the UK business market, BT has the highest awareness of any telecoms, networks and IT services brand. We kept up the pace with strong business wins such as network and ICT services for Royal Mail Group and network infrastructure for the Cooperative Group. BT was also positioned by Gartner, Inc, as a Leader in the Magic Quadrant for Network Services, Global for the 13th consecutive time (see page 70).

Research company Millward Brown valued the BT brand at $18.6 billion in 2016. It's possible that the impact of our Italian investigation may cause this to decline when the 2017 valuation is published. We describe what we're doing to redress this on page 88.

EE

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

Plusnet

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

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

Working together

We're working on synergies and opportunities for our three big brands to support each other wherever possible. You can read more about this in the Consumer and EE sections on pages 53 and 59.

STAKEHOLDERS

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

Our customers

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

You can read about our markets, customers and the services we offer them in our Lines of Business section, from page 53.

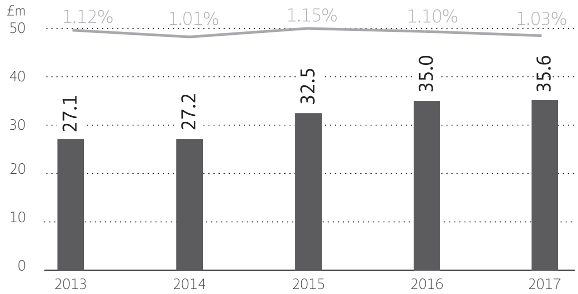
Interestingly, some of our customers are also our competitors. That's because we sell wholesale products and services to other communications providers in the UK and overseas.

Communities and society

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

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

Total investment in society
Year ended 31 March



— Percentage of previous year's adjusted profit before taxation
■ Investment – time, cash and in-kind support

Connecting society

Our 2020 ambitions

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

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

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

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

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

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

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

Our EE stores run Techy Tea Parties to help boost people's confidence in going online. And because we want to make sure children use the internet safely, we're working with partners like Internet Matters and Unicef UK through our programme The Right Click: Internet Safety Matters.

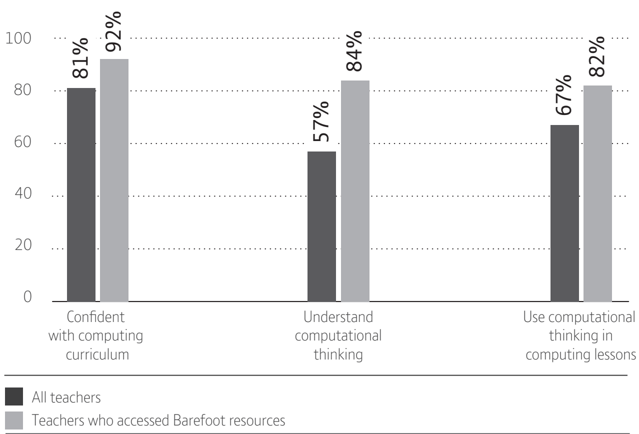
Outside the UK, we've completed the implementation of the healthcare management system within our Connecting Africa programme, winning the 'Changing Lives' award at the Broadband World Forum. Our insight is helping shape the World Economic Forum's Internet4All initiative in Sub-Saharan Africa. As a partner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

[a] The role of ICT in Reducing Carbon Emissions in the UK, BT, 2016 – available at www.bt.com/deliveringourpurpose

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

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

Teachers are more confident after using Barefoot resources:



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

Manchester Communication Academy

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

Supporting charities and communities

Our 2020 ambition

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

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

[a] www.techliteracy.co.uk

As well as creating scaleable opportunities to put something back into the community, this can also provide great content for our TV channels and improve public perception of our company. We again used MyDonate and our communications technology – with help from our volunteers – to support various large telethons. These included Stand Up To Cancer, Comic Relief and Children in Need.

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

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

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

These relationships are vital for funding our business and meeting our liquidity needs. You can find out more about this on page 96.

Our pension schemes
We operate defined benefit and defined contribution pension schemes. The largest by membership is the BT Pension Scheme (BTPS) which has around 300,000 members. You can read more about this on page 97.

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

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

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

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

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

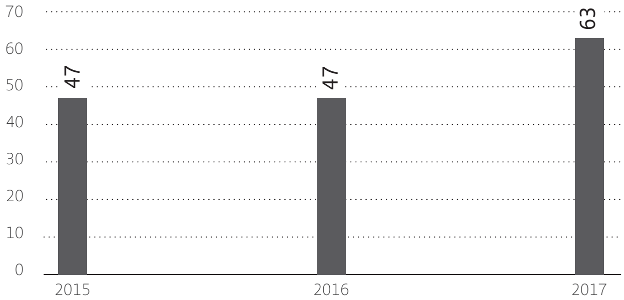
Choosing our suppliers
We want to know who we're doing business with and who's acting on our behalf. So we:

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

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

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

Number of on-site supplier assessments



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

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

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

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

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

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

What we've been doing
We've continued to champion free expression through our discussions with the Government on the Digital Economy Act. We've also reviewed our Acceptable Use Policy[a] to make it easier for customers to understand how they should use our online services to express themselves.

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

[a] www.productsandservices.bt.com/products/static/terms/
[b] www.ihrb.org/programmes/mega-sporting-events/white-paper-3.2-broadcasters

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

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

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

For example:

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

Another aspect of our relationship with Government is that we can be required by law to do certain things and provide certain services. For example, under the Communications Act, we (and others) can be required to provide or restore services during disasters. The Civil Contingencies Act 2004 also states that the Government can impose obligations on us (and others) at times of emergency or in connection with civil contingency planning.

The Secretary of State for the Home Department can also require us to take certain actions in the interests of national security.

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

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

The directives include rules covering:

- access and interconnection;
- universal service obligations; and
- a requirement for national regulators to review markets for significant market power (SMP) every three years and to put appropriate and proportionate SMP remedies in place.

Companies with SMP typically have a market share of 40% or more and could, without regulation, be able to do things such as increase prices without losing business to competitors (as would happen in a fully competitive market).

Review of the European Common Regulatory Framework
In September 2016, the EC published proposals for its review of the European Common Regulatory Framework. As part of this review, the EC will assess how to encourage investment in infrastructure and how to make current telecoms and media rules fit for new challenges and new types of service provider. The EC is also reviewing copyright and content policy. A directive embodying the new code is expected to be adopted in mid-2018, taking effect mid- to late-2019.

[c] www.btplc.com/Thegroup/Ourcompany/Ourvalues/ModernSlaveryAct/ModernSlaverystatement.pdf
[d] www.modernslaveryhelpline.org/

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

UK regulation
The UK telecoms and broadcasting industries are regulated primarily by Ofcom (the UK's independent regulator) within the framework set by the various European directives, the Communications Act 2003 (the Communications Act) and other UK and EU regulations and recommendations.

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

Under the powers of the Communications Act, Ofcom sets conditions that CPs must comply with. Some conditions, known as General Conditions, apply to all CPs. These mainly deal with issues such as protecting consumers, access and interconnection, and allocating and transferring phone numbers.

Ofcom's main duties	• To further the interests of citizens in relation to communication matters • To further the interests of consumers in relevant markets, where appropriate, by promoting competition

Other conditions apply to certain companies that are universal service providers or which Ofcom has decided have SMP in a particular market. We're the designated universal service provider for the UK (except for the Hull area where that role is taken by KCOM Group) and so we have certain obligations. The main one is to make sure that basic fixed-line services are available at an affordable price to all consumers. We're also obliged to provide public payphones. We have SMP in a number of markets including Business Connectivity (such as Ethernet and backhaul), Fixed Access (including LLU, GEA and WLR) and Wholesale Narrowband (such as Call Origination). That's why Ofcom's market reviews are so important for us.

Following a market review, if Ofcom decides that a CP has SMP, it can put controls in place, typically on the prices which the CP can charge.

CPs affected by Ofcom decisions can appeal them through a number of routes, including the Competition Appeal Tribunal (CAT) and the High Court.

BT's Undertakings
In response to Ofcom's 2005 Strategic Review of Telecommunications we gave some legally-binding undertakings under the Enterprise Act 2002. These Undertakings (which included the creation of Openreach) began in September 2005. They aim to give the UK telecoms industry clarity and certainty about the way we provide wholesale regulated products. This in turn supports effective and fair competition in related retail markets. Ofcom has published a consultation proposing to release BT from the Undertakings in light of the new Commitments we made to Ofcom on 10 March 2017.

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

Ofcom's Strategic review of Digital Communications

In March 2015 Ofcom announced it would carry out a strategic review of the digital communication industry, looking at ways to improve investment, innovation and competition across fixed-line, broadband and mobile markets.

In February 2016 Ofcom published its initial conclusions. These covered the wide range of issues originally flagged by Ofcom, as well as a conclusion that BT's model of functional separation should be strengthened to allow Openreach to take its own decisions on budget, investment and strategy, in consultation with its communications provider customers. This became the focus of the review, with the other issues taken forward through separate Ofcom initiatives.

In July 2016 Ofcom consulted on proposed reforms of Openreach, including Openreach becoming a distinct legal entity. Also in July 2016, we announced that we intended to implement changes to address Ofcom's concerns, including:

- a new Openreach board as a board committee of BT plc, with a majority of independent members including the chairman;
- greater delegation of strategic, operational and budgetary responsibilities to Openreach; and
- an enhanced process for industry consultation on large investment plans.

On 29 November 2016 Ofcom announced it was planning to make a formal notification to the European Commission in 2017 seeking approval to mandate legal separation of Openreach, stating that the changes we announced in July would not fully address its concerns.

At the same time, we announced that as the first step in the delivery of our changes, we had appointed Mike McTighe as the first chairman of the Openreach board. We said we were also continuing to seek to reach a voluntary agreement with Ofcom that would avoid the lengthy and complex processes involved in a notification to the Commission.

Following further discussions, BT and Ofcom agreed a new settlement, announced on 10 March 2017. This agreement, based on voluntary commitments by BT, will see Openreach become a distinct, legally separate company within the BT Group. We will consult all Openreach employees on the transfer of their employment to Openreach Limited once all the necessary pensions' protections and arrangements have been put in place. Once the agreement is implemented:

- Openreach Limited will have its own branding, which will not feature the BT logo.
- The Openreach CEO will report to the Openreach chairman with accountability to the BT Group, as the CEO of a wholly-owned subsidiary. This includes accountability to the BT Group chief executive with regards to certain legal and fiduciary duties that are consistent with BT's responsibilities as a listed company.

The agreement is intended to be comprehensive and enduring. It will provide BT and other companies with greater regulatory clarity and certainty which is vital for investment. This will help the UK retain its position as a leading digital economy, with the largest superfast network among major European nations.

Price regulation of our main wholesale products

The following table shows the main wholesale products provided to CPs which are subject to price controls in markets where we've been found to have SMP.

Product	Annual charge control	Current charge control ends
Fixed call origination[a]	RPI–3.6%	30 September 2016
Fixed call termination[a]	RPI–3.1%	30 September 2016
Mobile call termination	CPI–3.1%	31 March 2018
Wholesale Line Rental[a] (WLR)	CPI–3.0%	31 March 2017
IPStream[a] rental in Market A[b] only	CPI–10.7%	31 March 2017
Metallic Path Facility rental[a] (MPF)	CPI+0.3%	31 March 2017
Shared Metallic Path Facility rental[a] (SMPF)	CPI–33.4%	31 March 2017
Ethernet[c]	CPI–13.5%	31 March 2019
Partial Private Circuits (PPCs)[d]	CPI–3.5%	31 March 2019

[a] See WLA, WBA and Narrowband market reviews in the next section 'Other regulatory decisions and activities'.
[b] Wholesale broadband services are regulated in Market A which covers 9.5% of UK premises. Market B covers the remaining premises and is competitive and unregulated.
[c] Outside central London and ≤1Gbps.
[d] <8Mbps.

Other regulatory decisions and activities

Business connectivity market and cost attribution

In April 2016 Ofcom published its Final Statement on its Business Connectivity Market Review, Leased Lines Charge Control and Cost Attribution Review. This broadly confirmed Ofcom's proposals set out in its Draft Statement published in March, including:

- the charge controls that apply from 1 May 2016 until 31 March 2019;
- the introduction of minimum service levels for Openreach relating to the installation and repair of Ethernet services; and
- a requirement for Openreach to provide access to its fibre network for providers of high-speed services to businesses (known as 'dark fibre') from 1 October 2017.

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

Wholesale local access market review

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

Wholesale broadband access (WBA) market review

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

Narrowband market review

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

Mobile regulation

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

Standalone landline telephone services

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

Margin squeeze test

In May 2015, we made an appeal to the CAT on Ofcom's decision to introduce the VULA margin squeeze test. In March 2016 the CAT found that Ofcom was entitled to impose a regulatory margin squeeze test. In June 2016 the CMA published its determination on the remaining pricing grounds. It agreed with us that Ofcom had made an error in setting the relevant compliance period and determined that this should be extended to six months from the current one month.

It dismissed our other grounds. On 25 July 2016 the CAT completed its appeals process by issuing directions to Ofcom to amend the VULA margin squeeze test in line with the CMA determination.

Broadband USO
The UK Government has continued with its plans for a broadband Universal Service Obligation (USO) that includes a minimum line speed. The Digital Economy Act – which includes the provisions for the USO – gained Royal Assent on 27 April 2017. We've proposed an alternative approach to achieving universal 10Mbps broadband coverage and continue to discuss this with the UK Government.

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

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

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

PROTECTING THE ENVIRONMENT

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

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

Our 2020 ambition

Enable customers to reduce their carbon emissions by at least three times the end-to-end carbon impact of our business **3:1**

3:1 ambition	2015/16	2016/17
Customer savings (Mt CO_2e)	7.6	**10.0**
Our impact (Mt CO_2e)	4.8	**5.5**
Ratio	1.6:1	**1.8:1**

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

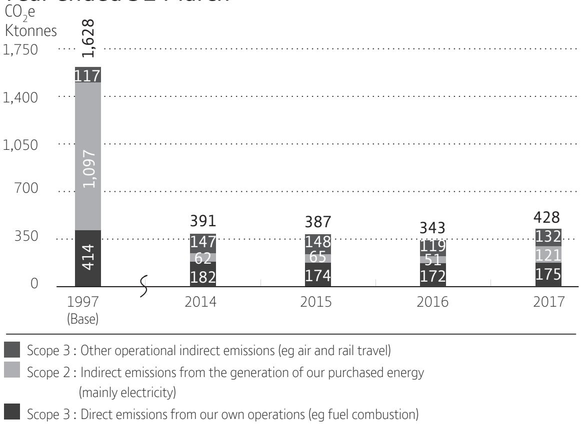
Reducing our own carbon footprint
We report all the greenhouse gas (GHG) emission sources required under UK regulations. The following chart shows the increase this year in our total operational worldwide CO_2 equivalent (CO_2e) emissions due to the inclusion of EE.

[a] As a signatory to the Climate Disclosure Standards Board's (CDSB) fiduciary duty and climate change disclosure, we summarise our response to climate change through this Annual Report with more details in our Delivering our Purpose report, available at www.bt.com/deliveringourpurpose

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

On our second intensity measure, our scope 1 & 2 emissions this year totalled 12.3 tonnes CO_2e per £m revenue. This is a decrease of 1.5% from last year, and of 86% since our base year of 1996/97.

Our worldwide greenhouse gas emmissions[a]
Year ended 31 March

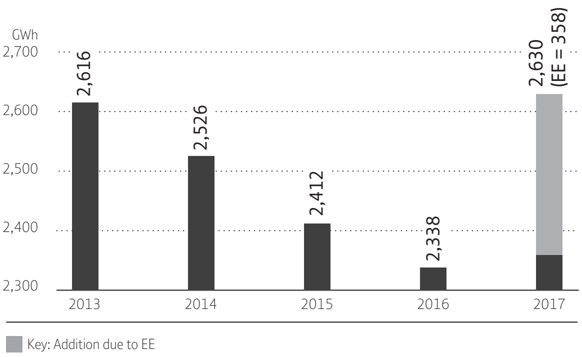


Figures exclude third-party consumption. Scope 2 data uses market-based calculation.
For full methodology, see www.bt.com/deliveringourpurpose

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

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

Our worldwide energy use[a]
Year ended 31 March



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

Conserving natural resources[a]

Reducing water usage

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

Managing waste products

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

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

OUR PERFORMANCE AS A SUSTAINABLE AND RESPONSIBLE BUSINESS

The first table below demonstrates our performance against our six 2020 ambitions. Below that, we report progress against seven foundation measures. Next year, we aim to maintain or improve on each of our ambitions and measures.

✓ Target met ✕ Target failed > Ongoing

	Our 2020 ambitions	2015/16 performance	2016/17 performance	Status	Page
Supporting charities and communities	Use our skills and technology to help generate more than £1bn for good causes	£94m raised for good causes Cumulative total: £327m since 2012	**£95m raised for good causes** **Cumulative total: £422m since 2012**	>	25
	Inspire 66% (two-thirds) of our people to volunteer	27% of BT people volunteering	**31% of BT people volunteering**	>	18
Creating a connected society	More than 9/10 people in the UK will have access to our fibre-based products and services	8.5 out of 10 UK premises passed	**8.8 out of 10 UK premises passed**	>	24
	Help 10m people overcome social disadvantage through the benefits our products and services can bring	2.6m people reached	**3.9m people reached**	>	24
Creating a culture of tech literacy	Help 5m children to receive better teaching in computer skills	344,000 children reached	**1.1m children reached**	>	25
Delivering environmental benefits	Enable customers to reduce their carbon emissions by at least three times the end-to-end carbon impact of our business	1.6:1 achieved	**1.8:1 achieved**	>	32

	Our foundation measures	2015/16 performance	2016/17 performance	Status	Page
Our investment	Investment to accelerate our purposeful business approach; to be more than 1% of adjusted profit before tax (PBT)	1.10% of PBT invested	**1.03% of PBT invested**	✓	24
Our customers	**Customer service:** to consistently improve RFT across our entire customer base	3.0% reduction	**6.4% improvement**	✓	12
Our employees	**Employee engagement index:** to maintain or improve our relationship with our employees	3.81/5 achieved	**71% favourable**[a]	>	12
	Sickness absence rate: to maintain or reduce % of calendar days lost to sickness	2.33% calendar days lost to sickness	**2.32% calendar days lost to sickness**	✓	18
	Ethical performance: to maintain or improve our employees' perception	4.31/5 achieved	**76% favourable**[a]	✕	38
Our suppliers	**Ethical trading:** across our supply chain, with focus on human rights. Achieve 100% follow-up within three months, for all suppliers identified as high or medium risk, through our ethical standards questionnaire	100% follow-up within three months	**100% follow-up within 3 months**	✓	26
Our environmental impact	**CO_2e emissions:** a measure of our climate change impact. We'll reduce our worldwide CO_2e emission intensity by 80% by December 2020[b]	81% reduction in net CO_2e emission intensity vs base levels (1996/97)	**n/a (new target being developed)**	>	32

[a] From our new employee survey (January 2017); not comparable with last year's result.
[b] After achieving our 2020 target last year, we're currently developing a new target to include EE.

OUR APPROACH TO RISK MANAGEMENT

Like any business, we face a number of risks and uncertainties. Some come from outside our organisation, others from within. Some we can't control, some we can. Many of our risks are similar to those felt by similar businesses.

Principal risks and uncertainties
The principal risks and uncertainties that affect us could have an impact on our business, brand, assets, revenue, profits, liquidity or capital resources. The principal risks we described last year have evolved, and so has our response to them.

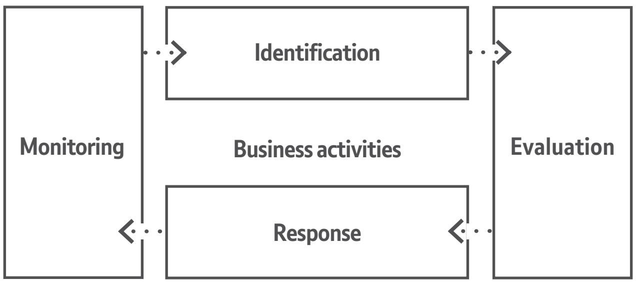
Our Enterprise Risk Management framework gives reasonable (but cannot give absolute) assurance that we've identified and addressed our biggest risks. However, there may be some risks that are either currently unknown, or currently seen as less important but with the potential to become more so in the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

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

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

In the section below, we explain what we're doing to prevent our main risks from materialising, or to limit their impact if they're unavoidable. Our biggest risks and uncertainties should be considered alongside the risk management process, the forward-looking statements in this document and the associated cautionary statement (see page 227).

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



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

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

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

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

ENTERPRISE RISK FRAMEWORK

Line of business and TSO audit and risk committees

Line of business and TSO leadership teams

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

Group Risk Panel

The Group Risk Panel supports the Board and the *Operating Committee*. Every three months it reviews the Group Risk Register (which summarises those risks of greatest significance across our business), considers the inclusion of new or emerging risks, and recommends ways to tackle them. It also oversees the work of the group risk management function. Geo-political risks are reviewed by a sub-committee of the Panel.

Operating Committee

The *Operating Committee* identifies, evaluates, responds to and monitors risks. Significant risks are reported and monitored through the Group Risk Register. The *Operating Committee* assigns a management owner to take charge of monitoring and managing each risk. It monitors risks through regular, detailed reviews as well as six-monthly reviews of the Group Risk Register.

Audit and Risk Committee

Board

The Board has overall responsibility for making sure we manage risks appropriately. It regularly reviews, either directly or through the *Audit & Risk Committee*, how we're doing across the group, in our lines of business and in TSO.

OUR PRINCIPAL RISKS

Trend indicates our perception of pre-mitigation risk

- Increasing/worsening
- Lessening/improving
- At a similar level

COMPLIANCE RISKS

ETHICAL CULTURE AND CONTROLS

Link to strategy:

- Deliver great customer experience
- Transform our costs

Link to business model:

- Financial capital
- Human capital
- Social capital

Trend:

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

We follow local and international law, including anti-corruption and bribery laws. The UK Bribery Act and US Foreign Corrupt Practices Act (FCPA) have extraterritorial reach, so cover our global operations. As we expand globally, we're increasingly operating in countries seen as having a higher risk of bribery and corruption. We also have to make sure we follow trade sanctions and import and export controls.

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

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

Impact

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

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

What's changed over the last year?

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

For further details of what we found, how we've responded, and what our ongoing plans are, see below.

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

How we're mitigating the risks

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

Our relevant controls include an anti-corruption and bribery programme and 'The Way We Work', our ethical code, available in 14 languages. We ask all our people to complete training and sign up to The Way We Work which includes our zero tolerance to bribery and corruption. We have policies covering gifts, hospitality, charitable donations and sponsorship. We run tailored training for people in higher-risk roles like procurement and sales.

We regularly weigh up our business integrity risks to make sure we've got the right mitigation in place. All 'Speak Up' reports are passed to the director of ethics and compliance for action. Our confidential hotline is operated by a third party and is available to employees and third-party contractors who can remain anonymous if they choose to. Any reports received direct to BT are also dealt with in accordance with our Speak Up procedures.

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

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

BT Italy – our response

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

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

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

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

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

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

PROCESSING OUR CUSTOMERS' DATA

Link to strategy:

- Deliver great customer experience

Link to business model:

- Financial capital
- Social capital

Trend:

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

Firstly, we must make sure our customers' data is secure, and protected against both internal and external threats (eg cyber attacks). Being trusted with our customers' data goes further than that though. It means preserving the integrity of the personal data we process, and only keeping the things we need to provide customers with the services they've signed up for. It also means being transparent around how we use that data, making sure the way we process personal data is legal, fair and in line with customers' rights and wishes.

As a communications provider we operate under a stringent 24-hour reporting regime to tell the UK Information Commissioner's Office (ICO) if we become aware of a personal data security breach. We must also tell any affected individuals as quickly as possible.

Different parts of the world approach privacy and data protection differently. An individual's fundamental right to privacy is reflected in the fact that data privacy laws are in force in over 100 countries. More and more we (and other multinationals) have to show that we're handling personal data in line with a complex web of national data laws and society's ethical expectations.

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

On top of that, we could see huge reputational damage and big financial losses. Those losses could come from fines and damages if we fail to meet our legal requirements, as well as costs resulting from having to close customer contracts and the subsequent customer churn. Companies who've had high profile 'data incidents' have seen their share price hit hard, and suffered ongoing costs from their non-compliance.

What's changed over the last year?
National regulators are more aggressively protecting their citizens' privacy and data protection rights. They're especially targeting companies that fail to do due diligence, or who knowingly accept (or ignore) a related risk for too long. This has been brought into sharp focus by the growth of data threats, with several big organisations suffering incidents.

There's been a general trend toward bigger financial penalties and more frequent public shamings for organisations who break global privacy and data protection laws.

How we're mitigating the risks
We've introduced governance to clarify responsibilities for data activities across our whole business. People, processes and technology have been our core areas of focus. By embedding this governance, we're reinforcing our expectations around personal data with our people, our partners and third parties.

The cornerstone of our education and training programme is making sure our people understand our data governance culture and the impact of data risks on our business. Our mandatory data privacy training focuses on the individual's role, and uses relevant scenarios to highlight the varying data risks of different BT job families. By educating our technical and commercial units we've made a step change in understanding data risks across BT.

We want to give our people the tools they need to make everyday risk-based decisions around privacy and data protection without it being a burden or making their job more complicated. If we do that, there's a much better chance of data compliance becoming 'business as usual'. For example, using Privacy Impact Assessments when we develop new products and services makes sure everyone understands privacy issues from the start and builds in the right controls, without any operational impact.

Supporting the third-line assurance of our Internal Audit team, the chief privacy officer and his team are a second line of defence. They undertake an annual cycle of audit and monitoring.

Our mitigations against cyber attacks are described in our Security and resilience risk (page 49).

HEALTH AND SAFETY

Link to strategy:

- Deliver great customer experience
- Transform our costs

Link to business model:

- Financial capital
- Human capital
- Social capital
- Natural capital

Trend: ^

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

Acquiring EE has also raised the exposure of our customers and staff to radio frequency emissions from wireless mobile devices and mobile telecoms sites. Media reports have suggested these emissions may cause health issues, including cancer, and may interfere with some electronic medical devices, including hearing aids and pacemakers. Research and studies are ongoing. According to the World Health Organisation's Fact Sheet Number 193, last reviewed in October 2014, there are no known adverse effects on health from emissions at levels below internationally recognised health and safety standards. Even so, we can't provide absolute assurance that research in the future won't establish links between radio frequency emissions and health risks.

Impact
Failure to implement and maintain effective health and safety management could have a huge impact on our people and our finances. It could lead to people getting injured, work-related sickness and service disruption for customers.

It could also result in our people and third parties making compensation claims against us, and fines or other sanctions being issued by regulators. There could even be criminal prosecutions against us, our directors and our people – all of which would harm our brand and business.

And of course an unhappy or unhealthy workforce also leads to higher work absence rates and lower performance levels.

What's changed over the last year?
The range and complexity of risks has gone up as we've offered new services to our customers. Those risks include us doing more construction and electrical engineering work on our own network, as well as new contracts requiring us to maintain and extend the UK's mobile network. We've taken a lot of steps to mitigate these risks – especially around how our people work with electricity or at height.

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

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

How we're mitigating the risks
We're implementing the next stage of a Board-endorsed health, safety and wellbeing strategy. As part of this, each year every line of business produces its own health and safety plan with its own targets and programmes.

Our people managers take responsibility for making sure their teams know how to comply with health and safety standards. We monitor compliance using annual licensing, scheduled refresher training, competency assessments and accreditation processes for higher risk groups. All our people undertake training in basic health and safety.

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

We provide advice to help management teams understand and control health and safety risks and help everyone feel involved in health, safety and wellbeing. We've created interventions to help promote good mental health and physical wellbeing. We also provide support and rehabilitation services for people who have mental or physical health issues. And we complement these measures with strong attendance management processes.

STRATEGIC AND FINANCIAL RISKS

GROWTH IN A COMPETITIVE MARKET

Link to strategy:

- Invest for growth

Link to business model:

- Financial capital
- Intellectual capital

Trend: ^

Our markets are characterised by:

- constant, rapid change;
- strong, new competition;
- falling prices and (in some markets) falling revenues;
- technology changes;
- market and product convergence;
- customers moving between providers; and
- regulation to promote competition and cut wholesale prices.

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

What's changed over the last year?
We've been executing our strategy by:

- extending our 4G and fibre broadband coverage;
- making good progress on integrating EE and hitting our synergy targets; and
- investing to improve customer experience and the products we offer.

Our leading competitors have also been very active. Important developments included:

- Virgin Media expanding its UK network;
- Sky and Gamma launching new mobile services;
- 21st Century Fox's bidding for the share in Sky it didn't already own;
- Sky launching a Now-TV branded triple-play bundle without a contract; and
- TalkTalk's continued success at growing its data revenues.

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

There are also economic risks that could threaten revenue growth:

- downside risks to the UK and global economy are bigger than they were 12 months ago.
- it's unclear how much the UK economy will be impacted by the vote to leave the European Union, nor is it clear what trade arrangements will be agreed after the UK leaves.

How we're mitigating the risks
We stick to our strategy, which means:

- broadening and deepening our customer relationships;
- providing a great customer experience; and
- investing for growth.

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

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

COMMUNICATIONS INDUSTRY REGULATION

Link to strategy:

- Deliver great customer experience
- Transform our costs

Link to business model:

- Financial capital
- Manufactured capital

Trend:

Regulation affects much of what we do.

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

Ofcom also has powers to regulate the terms on which we get supplied with certain services by others – for instance, mobile call termination and wholesale access to certain pay-TV channels. This can increase our costs and affect the scope of services we can provide to customers. Ofcom can also sort out disputes between us and other communications providers about the terms on which services are supplied.

Outside the UK, general licensing requirements can make it tough for us to enter markets and compete. Regulation will also define the terms on which we can buy wholesale services from others.

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

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

Regulation outside the UK can hit our revenue too. For example, overly-restrictive licensing requirements or ineffective regulation of access to other networks mean we might not be able to compete fairly. Regulation can also define and control the terms of access to necessary regulated inputs, which raises our costs.

What's changed over the last year?
There's been a lot of regulatory activity in different areas over the last year. Ofcom has started market reviews in relation to wholesale narrowband access, wholesale local access and wholesale broadband access. We've summarised this in the Regulation section on page 28.

In March 2017 Ofcom found that Openreach had breached its contractual and regulatory obligations by inadequately and retrospectively applying Deemed Consent between January 2013 and December 2014; and that Openreach then failed to compensate communications providers fully. As a result of the findings, Ofcom imposed a fine on BT and Openreach agreed to compensate communications providers outside of BT in full. See page 32 for further information.

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

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

We push for fair, proportionate, consistent and evidenced-based regulation everywhere we do business. Whenever there are market reviews, charge controls and disputes or investigations we put forward evidence and analysis. This helps us manage the risks around decisions in any particular year.

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

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

PENSIONS

Link to strategy:

- Transform our costs

Link to business model:

- Financial capital
- Human capital
- Social capital

Trend: ^

We have a large funding obligation to our defined benefit ("DB") pension schemes. The largest of these, the BT Pension Scheme (BTPS or Scheme), represents over 97% of our pension obligations. The BTPS faces similar risks to other UK DB schemes: things like future low investment returns, high inflation, longer life expectancy and regulatory changes may all mean the BTPS becomes more of a financial burden.

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

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

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

What's changed over the last year?
The pension deficit of the BTPS is calculated as the value of the assets less the value of the liabilities. The deficit at the valuation date will influence the deficit payments we agree.

A number of things affect the liabilities, including expected future investment returns at the valuation date. When considering expected future returns, we review different factors including yields (or returns) on government bonds, which have fallen in the year and have dropped significantly since 30 June 2014. If a lower future investment return is assumed at the next valuation our liabilities would likely go up.

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

How we're mitigating the risks
The investment performance and liability experience are regularly reviewed by both us and the Trustee of the BTPS. We also consider the associated risks and possible mitigations. The investment strategy aims to mitigate the impact of increases in the liabilities, for example by investing in assets that will increase in value if future inflation expectations rise. The assets held are also well diversified, softening the impact of sharp drops in the value of individual asset classes. This helps us maintain a reasonable balance of risk and return.

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

POLITICAL RISK

Link to strategy:

- Deliver great customer experience
- Invest for growth

Link to business model:

- Financial capital
- Human capital
- Social capital

Trend: ^

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

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

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

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

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

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

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

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

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

FINANCIAL RISK

Link to strategy:

- Transform our costs
- Invest for growth

Link to business model:

- Financial capital
- Social capital

Trend:

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

Potential impact
If there is an adverse movement in foreign exchange and interest rates there could be a negative impact on the group's profitability, cash flow, and balance sheet.

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

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

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

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

How we're mitigating the risks
We have a centralised treasury function whose primary role is to manage liquidity and funding requirements as well as our exposure to associated financial and market risks, including credit risk, interest rate risk and foreign exchange risk in-line with Board approved policies. These risk management policies are described in detail in note 25 to the Consolidated Financial Statements. The Board reviews liquidity and funding requirements of the group on an ongoing basis.

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

OPERATIONAL RISKS

SECURITY AND RESILIENCE

Link to strategy:

- Deliver great customer experience

Link to business model:

- Financial capital
- Intellectual capital
- Manufactured capital

Trend:

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

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

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

What's changed over the last year?
The acquisition of EE has substantially changed our security risk, adding large volumes of bank account and credit card data which are attractive to hackers. The rapidly escalating cyber threat is recognised as a major risk faced by organisations across the world, and we're clearly seen as a legitimate target for cyber-incidents. We're also exposed to collateral damage from attacks on our suppliers and customers by highly motivated and well-resourced nation state actors and criminal gangs.

We responded to several potentially serious cyber-attacks during the year, and attempts to compromise our systems using known hacking tools have repeatedly failed. We've made real progress on improving risk controls, but more needs to be done to make sure we can keep up with the growing threat. The two major data breaches announced by Yahoo in September and December 2016 both included BT mail account records dating from 2013 and 2014. Some of these accounts are still vulnerable because their owners have never changed their passwords. The customers affected were quickly advised to reset their passwords, and forced resetting of passwords will be applied where necessary.

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

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

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

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

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

MAJOR CONTRACTS

Link to strategy:

- Deliver great customer experience
- Transform our costs
- Invest for growth

Link to business model:

- Financial capital

Trend:

We have a number of complex and high-value national and multinational customer contracts. The revenue and profitability of these contracts are affected by things like: variation in cost; achieving cost savings anticipated in contract pricing (both in terms of scale and time); delays in achieving agreed milestones owing to factors either in or out of our control; changes in customers' needs, their budgets, strategies or businesses; and our suppliers' performance. Any of these factors could make a contract less profitable or even loss-making.

The degree of risk varies with the scope and life of the contract and is typically higher in the early stages. Some customer contracts need investment in the early stages, which we then expect to recover over the life of the contract.

Major contracts often involve implementing new systems and communications networks, transforming legacy networks and developing new technologies. Delays or missed milestones might have an impact on us recovering these upfront costs. There's a substantial performance risk in some of these highly-complex contracts.

Potential impact
If we don't manage to meet our commitments under these contracts – or if customers' needs, budgets, strategies or businesses change – then our expected future revenue, profitability and cash generation may go down. Unexpectedly high costs associated with fulfilling particular transformational contracts could also hit profitability. Earnings may drop. Contracts may even become loss-making through loss of revenue, changes to customers' businesses (due to, for example, mergers or acquisitions), business failure or contract termination.

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

We're still delivering contracts with local authorities through regional fibre deployment programmes, including the Broadband Delivery UK programme (BDUK). As with our other major contracts, if we fail to deliver these contracts successfully it might lead to reduced future revenue, profitability and cash generation.

As well as carrying a higher reputational risk, these contracts present specific risks around deployment, delivery and our ability to recover public funding. We also have an obligation to potentially either re-invest or repay grant funding depending on lots of different factors – including how many customers take up a new service.

What's changed over the last year?
We've acquired EE and with it the Emergency Services Network (ESN) programme, which is a high-profile contract delivered with several partners and managed by the Home Office. To date we've delivered on our commitments but it's still a high-risk programme and is being managed as such.

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

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

While our broadband contracts and ESN carry a different risk profile to other major corporate contracts, we apply our governance and reporting processes to make sure we identify risks and mitigation activities and report them to management.

How we're mitigating the risks
At both group and line of business-level we have governance, risk management and reporting processes in place. Independent audits and the checks and balances in individual contracts provide assurance through an independent review programme. To track progress, we monitor how we're doing on these risks and mitigation actions, and report the result to senior management. A separate, dedicated team provides assurance for our BDUK and ESN projects.

The BT Academy helps support skills development and learning initiatives. These help our Contract Management Profession to better identify and manage risk. We also update new training collateral whenever we learn something new. The scope and availability of training options continues to improve through BT-wide learning and development initiatives.

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

SUPPLY CHAIN

Link to strategy:

- Deliver great customer experience
- Transform our costs

Link to business model:

- Financial capital
- Social capital
- Natural capital

Trend: >

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

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

Our dealings with suppliers – from the way we choose them, to the contracts we sign and how we pay them – follow our trading and ethical policies.

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

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

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

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

How we're mitigating the risks
We have a few really critical suppliers. We keep a close watch on their performance and ability to meet their obligations. We tell the business when to prepare for the risk of a supplier failing, and our senior leaders continually review how ready we are for such events.

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

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

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

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

EMPLOYEE ENGAGEMENT

Link to strategy:

- Deliver great customer experience

Link to business model:

- Human capital

Trend:

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

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

What's changed over the last year?
Following the acquisition of EE we're working to bring these two businesses together into a truly integrated company. We've identified examples of best practice from both organisations that will act as building blocks for our 'better than both' ambition. We've launched a new set of values to reflect this. We've launched a new employee survey and approach which make it easier for managers and their teams to see the key things they need to do to improve levels of engagement and better serve our customers.

How we're mitigating the risks
We provide comprehensive support and training to help our people deliver to the best of their ability. We regularly review our pay and benefits to make sure our remuneration is competitive when compared to other companies of a similar size and complexity. We seek a positive and enduring relationship with our people and their representatives. We have a very comprehensive global engagement strategy in pursuit of that aim. This involves both our employees and their representatives (Unions, Works Councils and Employee Fora). We also have a comprehensive business continuity function.

OUR LINES OF BUSINESS
CONSUMER

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

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

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

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

Our Consumer line of business offers products and services from both BT and Plusnet. Subscriber numbers and market share data for home phone, retail broadband and TV are reported at group level and can be found in this section. Figures for mobile (also reported at group level) can be found in the EE section on page 59.

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

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

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

Markets and customers

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

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

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

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

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

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

Subscription video on demand (SVoD) content providers such as Netflix and Amazon Prime are becoming increasingly popular, although this is largely as a complement to traditional pay-TV rather than as a replacement.

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

Mobile
We describe the UK mobile market, including BT's overall position, in the EE section of this report starting on page 59.

Products and services

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

Home phone

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

Consumer home phone services include:

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

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

Broadband

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

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

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

Our broadband packages also include the following products:

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

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

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

EE broadband offers three similar products.

TV

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

BT TV comes in three different packages:

- **Starter + BT Sport** – Over 70 Freeview channels, plus BT Sport channels; AMC; Box Nation and access to BT Store. This package comes with a YouView box which lets people pause and rewind live TV.
- **Entertainment Plus** – Includes 110 channels, as well as a YouView+ box, which lets customers record up to 300 hours of programmes, pause and rewind live TV, and access seven days' worth of catch-up TV. It also includes access to the BT TV app.
- **Total Entertainment** – Offers 141 channels, including 21 in HD. Also includes additional recording space on the set-top box; BT Sport in 4K Ultra HD and BT Kids TV.

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

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

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

BT Sport

There are four main live BT Sport channels.

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

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

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

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

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

BT Mobile

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

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

Performance in the year – Strategic

Customer experience remains our top priority.

Delivering great customer experience

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

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

Investing in online support

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

Better systems and tools for our agents

We're in the process of deploying a new system to our frontline agents so they can help customers even more quickly and accurately. This system is now live for more than 4,500 agents.

New diagnostics to help us detect and resolve faults

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

Simplifying our organisation

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

Even so, work continues in this area

Although a lot of progress has been made in the year on customer experience, the criticism we've received from both the media and the regulatory authorities over the year reinforces the need to redouble our efforts. One specific issue we need to address is the growing number of customers contacting us to discuss their monthly package price. The increasing number of contacts offset the progress made in other areas (such as fault resolution and providing services on time) to reduce the Right First Time score achieved by Consumer.

Investing for growth

This year we continued to focus on sustainable long-term growth, making several investments for the future. The table below summarises the progress made on the top priorities we set out in last year's report.

Review of last year's priorities

WHAT WE SAID	WHAT WE DID
We said we'd transform customer services.	We've invested in systems and process to improve customer experience, and we've employed more people to make sure that by spring of 2017, 90% of customer calls are answered in the UK or Ireland. We're on track to meet this target, with over 86% of calls now answered in the UK and Ireland. We've also made it easier for customers to interact with us online. This year we provided over 800,000 hours of training to our contact centre agents.
We said we'd launch our new Premier League rights and Australian Cricket on BT Sport.	This football season we aired 42 Premier League matches and 130 live games from the UEFA Champions League. We also broadcast 16 international Australian cricket games exclusively in the UK.
We said we'd trial and launch ultrafast broadband using Openreach G.fast products.	Following successful trials of G.fast-powered ultrafast broadband, with over 300 customers already connected across two locations in the UK (Gillingham and Cherry Hinton), we're extending to another 15 sites in our plan prior to our launch.
We said we'd launch mobile handsets to create new market opportunities and synergies with EE.	We launched handsets with BT Mobile and created synergies with EE by consolidating suppliers. We also launched BT Family SIM. In November 2016, we launched Plusnet Mobile.
We said we'd introduce a new YouView user interface.	In February 2017 we started to roll out the new BT TV YouView user interface to our customers, a process that's now complete.
We said we'd launch our new breakthrough service to help home phone customers avoid nuisance calls.	Known as BT Call Protect, we launched this innovative new service in January 2017.
We said we'd increase the number of 'revenue generating units' by 2.5m over the next three years.	We're making good progress towards this aspiration, but we're not there yet.

Transforming our costs

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

To partly offset this we cut costs by:

- consolidating suppliers shared by both Consumer and EE;
- encouraging customers to adopt a self-service approach, more than 1.4m of them now have the My BT app; and
- finding production and insourcing efficiencies in our TV business.

Performance in the year – Operating

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

Organisation/publication	Award	BT product/service
Mobile Industry Awards	Hottest New MVNO	BT Mobile
PC Pro	Recommended	BT Smart Hub
Expert Reviews	Recommended	BT Smart Hub
Tech advisor	Recommended	BT Smart Hub
Alphr	Recommended	BT Smart Hub
Expert Reviews	Recommended	BT Halo phone
Mobile Choice Awards	Best Network Deal Under £25	BT Mobile
Mother & Baby	Silver Award	BT 7500 Baby Monitor
Expert Reviews	Best Buy	Whole Home Wi-Fi
Alphr	Recommended	Whole Home Wi-Fi
uSwitch	Most Popular Broadband Provider	BT Broadband
Broadband World Forum	Best TV or media innovation	BT Sport App
TV Connect Awards	Best Content Discovery Service	BT TV YouView interface
The Connies	Contribution to User Experience	YouView on BT TV
The Connies	Best TV/Video Service Update (Silver)	YouView on BT TV
Sports Technology Awards	Most innovative live event	BT Sport
Da AD	Wood pencil	Ultra HD

Plusnet also won several awards:

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

Home phone, broadband and TV are reported on a group-wide basis in the section below. Mobile performance is also reported on a group-wide basis and can be found in the EE section on page 59.

Home phone

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

Broadband

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

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

TV

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

BT Sport's average daily viewing figures went up by 12% in 2016. During this time, our BT Sport app was downloaded more than 2.2m times.

Performance in the year – Financial

In 2016/17, our revenue went up by 7%, with a particularly strong growth across broadband, TV and BT Mobile. EBITDA decreased 4%.

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

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

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

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

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

Priorities for the year ahead

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

Our top priorities for 2017/18 are:

Keeping the household connected

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

[a] Revenue generating units are voice lines, broadband, TV and mobile.

Enhance sport and TV content

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

Transform customer experience

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

EE

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

At BT we report mobile customer numbers on a group-wide basis, including those from our other lines of business. We have over 30m connections, 18.6m of which are 4G. In EE, new mobile customers join the EE brand, though we still have a number of customers on legacy Orange and T-Mobile tariffs. We acquire and retain customers through our chain of around 570 shops, our website and contact centres, and through third parties, such as Dixons Carphone. To improve customer experience, all EE customer service calls have been handled in the UK and Ireland since the end of 2016.

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

Starting in September 2017 we'll support the Emergency Services Network contract by providing a resilient 4G network for 300,000 emergency services workers (page 60).

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

From 1 April 2016 we changed how the former EE business was organised to manage it better within the group. Business mobile was transferred to Business and Public Sector, the wholesale operations were transferred to Wholesale and Ventures, and the mobile network was transferred as a distinct business unit into TSO.

Markets and customers

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

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

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

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

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

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

- rapid adoption of 4G devices as 4G networks are deployed. That means nearly all handsets sold are smartphones;
- growth of connected devices, including tablets;
- significant growth in mobile data use;
- continued decline in the prepaid market as customers move to postpaid tariffs;
- blurring of postpaid and prepaid customer types with rolling postpaid tariffs and auto-renewing prepaid bundles;
- popularity of SIM-only tariffs. Smartphones are evolving at a slower pace so people are keeping their mobile phones for longer; and
- regulatory pressure on the prices charged to customers and other telecoms companies.

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

The consumer fixed line voice and broadband market is discussed in the Consumer section of this report on page 53.

Products and services

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

Postpaid

New consumer customers, and those who renew their contracts with us, are put on 4G tariffs. If the tariff includes a handset, the contract is typically for 24 months. The tariff will include a bundle of monthly voice, SMS and data use. Prices vary with the size of the bundle, the device type and 4G speed. The tariffs are split into three main groups:

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

Prepaid

Prepaid customers buy a phone and then add a 'pay-as-you-go' pack of 4G use. The packs are split into three groups:

- **Everything packs** for unlimited texts and tiered bundles of voice and data use over a 30-day period;
- **Talk and text packs** for tiered bundles of voice and text use over seven to 30-day periods; and
- **Data packs** ranging from 100MB to 4GB over seven to 30-day periods.

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

Devices

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

Broadband and TV

We sell fixed-voice, broadband (including superfast fibre broadband) and TV services. To reward loyalty, our postpaid customers get larger data allowances if they also buy EE broadband.

EE TV provides more than 70 free channels simultaneously on up to four devices, as well as access to pay-TV channels. The EE TV set-top box comes with one terabyte of memory and can be controlled from a mobile phone or tablet using the EE TV app.

Emergency Services Network

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

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

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

To deliver the ESN service we're:

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

Performance in the Year – Strategic

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

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

During the year we worked on projects across four key areas:

- **call centres** – all EE customer service calls are now handled in UK and Ireland contact centres;
- **Self-service** – we now have 9m customers using My EE;
- **Shops** – we're improving our service; and
- **IT** – we're enhancing our customer-facing IT systems.

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

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

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

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

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

We delivered savings this year by:

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

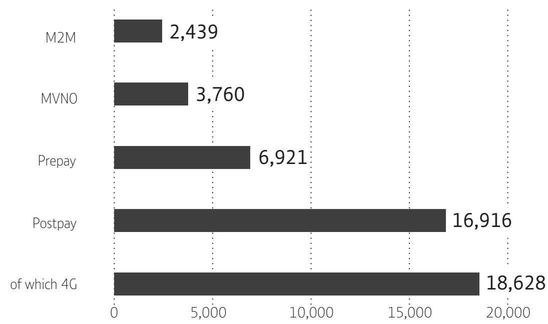
Performance in the year – Operating

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

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

Customer base by type

000



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

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

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

In last year's report, we set out our top priorities for this year. In the table below we summarise the progress we've made.

Review of last year's priorities

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

Performance in the year – Financial

Revenue for the year was £5,090m and EBITDA was £1,156m. Underlying revenue[a] and EBITDA[a] adjusted for the acquisition of EE went up by 1% and 6% respectively.

Year ended 31 March	2017 £m	2016[b] £m
Revenue	**5,090**	841
Underlying revenue excluding transit adjusted for the acquisition of EE	**1%**	n/a
Operating costs	**3,934**	668
EBITDA	**1,156**	173
Depreciation and amortisation	**780**	146
Operating profit	**376**	27
Capital expenditure	**616**	96
Free cash flow	**570**	238

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

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

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

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

[a] Excludes specific items, foreign exchange movements and disposals. Calculated as though EE had been part of the group from 1 April 2015.
[b] Includes EE results from acquisition on 29 January 2016.
[c] Includes EE's historical financial information as though it had been part of the group from 1 April 2015, under the new organisational structure.

Priorities for the year ahead

Over the next 12 months we'll continue to invest in the network and further improve the customer experience.

Our top priorities for 2017/18 are:

Maintain network leadership

- we'll further extend 4G geographic coverage to 95% of the UK by 2020.

Carry on improving customer experience

- in the medium term we aim to become the mobile network operator with the best postpaid net promoter score.

Deliver the EE part of the Emergency Services Network contract

- we're aiming to finish building and testing by the end of September 2017.

BUSINESS AND PUBLIC SECTOR

We sell communications and IT services in the UK and the Republic of Ireland. We've around 1.2m business and public sector customers and lead the field in fixed voice, networking and broadband.

We're passionate about helping all our customers succeed – from large government departments, big household names and public sector organisations right through to small businesses and new start-ups.

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

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

TRADING UNIT	CUSTOMERS
Small & Medium enterprises	• Businesses in the UK with up to 100 employees, ranging from sole traders through to more complex organisations (including schools and colleges).
Corporate	• Businesses in the UK with between 100 and 1,000 employees.
Major & Public Sector	• Public sector (central and local government, health, higher education, defence). • Businesses in the UK with over 1,000 employees. • Multinational corporates with majority of BT business in the UK.
	• Corporates and public sector in Northern Ireland. • Corporates, public sector and wholesale customers in the Republic of Ireland.

Markets and customers

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

Major customers include:

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

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

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

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

Fixed voice

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

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

Mobility

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

Our main competitors in this area are O2 and Vodafone. Both offer fixed products as well as mobile and are increasingly selling converged services.

Fibre and connectivity

Broadband services are still migrating to fibre in order to meet the need for faster communication speeds. We're the largest business broadband provider in the UK.

Networking is moving from physical provision to software-based, virtual provision. It's expanding into the wide area networking space through technologies such as Software Defined Networking (SDN). See page 69 for more details.

Ethernet and dedicated internet access services are growing strongly, with businesses becoming increasingly reliant on connectivity. We're the leading provider of fixed networking services in the UK.

Networked IT services

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

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

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

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

Products and services

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

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

Fixed voice

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

Mobility

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

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

Fibre and connectivity

We provide a range of internet access options including: BT Business Broadband (over copper connections); BT Business Infinity over fibre-to-the-cabinet (FTTC) and fibre-to-the-premises (FTTP); and BTnet dedicated internet access.

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

Networked IT services
Our specialist IT services team provide solution design, delivery, management and in-life support, built around five core product areas:

- end-user computing;
- unified communications and collaboration;
- networking;
- security; and
- data centres, cloud and hosting.

These services are supported by partnerships with the likes of Cisco, HP and Microsoft.

Performance in the year – Strategic
Our continued investments in our people and our portfolio has helped improve the customer experience we provide while positioning us to exploit the market move to convergence.

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

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

This year we've:

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

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

This year we've:

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

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

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

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

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

Contracts we won or re-signed this year include:

CUSTOMER	CONTRACT
Royal Mail	A four-year deal for wide-ranging network and ICT services, covering voice, data, and customer contact centres.
Glanbia	Renewal of existing WAN and managed services deal by adapting our service model to meet Glanbia's global expansion needs (particularly in the USO).
Ardagh Group	Extension of existing WAN contract, addition of global SIP, completion of a Cisco PBX replacement project and deployment of BT Microsoft One Cloud.
Metropolitan Police	£100m networking and IT contract to deliver high-speed fixed and wireless networks, together with a range of Cloud and IT services, to help underpin its technology transformation programme.
Surrey County Council	Our public services network contract was extended for a further two years, growing to 500 sites.

The number of business lines we provide fell by 9% as customers continue to migrate to VoIP. This has been partly offset by growth in the number of IP lines, up 78%. We're seeing strong take-up of our BT Cloud Voice and BT Cloud Phone services with user numbers up 258% and 94% respectively.

In last year's report, we set out our top priorities for this year, the table below summarises the progress we've made against them.

Review of last year's priorities

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

Performance in the year – Financial

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

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

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

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

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

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

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

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

Priorities for the year ahead

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

Our top priorities for 2017/18 are:

Drive growth from greater sales coverage, acquiring and cross-selling to customers

- increase the average number of products sold per customer.

Differentiate through an integrated experience and portfolio, delivered on the best network

- growth in the strategic portfolio areas of IP Voice, Mobile, Networking and IT services.

Continue to improve the customer experience we provide

- further improvements in NPS.

GLOBAL SERVICES

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

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

[a] Excludes specific items, foreign exchange movements and disposals and from 2016/17 is calculated as though EE had been part of the group from 1 April 2015.
[b] Includes EE's historical financial information as though it had been part of one group from 1 April 2015, under the new organisational structure.

During the year, we identified inappropriate behaviour in our Italian business. This is an extremely serious matter and has no place in BT. For full details of what we found, how we responded and what we will do going forward see page 88.

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

Key industry sectors:
- Financial Services
- Automotive
- Energy and Resources
- Manufacturing
- Media and Business Services
- Retail and Consumer Goods
- Technology and Telecoms
- Travel, Transport and Logistics

Markets and customers

Customers

We work with 5,500 customers across 180 countries worldwide. Our focus is on our major accounts, which generated 78% of our revenue in 2016/17. 72% of revenue was from customers served in multiple geographies.

We also keep focusing on growing our share of customer spend by cross-selling products and services in line with our Cloud of Clouds strategy.

Regions

We've over 17,000 people worldwide in 63 countries. Our 20 highest priority countries, including the UK and other key countries where our major customers are based, generate over 90% of our revenue. Continental Europe is our largest region by revenue. We employ around 7,200 people across key European business hubs, and have an extensive network of more than 1,000 PoPs.

In the UK, we serve multinational companies and financial services organisations.

The Americas is important because 70% of our top customers have a presence in the region. We operate in 28 countries in Latin America and the Caribbean, as well as the US and Canada.

In Asia, Middle East and Africa we're helping multinationals expand into these areas, while supporting local companies as they grow internationally. We help our customers from 26 offices.

Outside the UK, use of the incumbent's access network under non-discriminatory terms and conditions is important to provide a competitive service to our customers. We still campaign for fair markets as we expand our business.

Global Services strategic review

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

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

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

Key market trends

Our customers are globalising and transforming their businesses. They're using services from the cloud to gain competitive advantage by increasing efficiencies and decreasing IT costs. They want:

- a greater choice of cloud service providers;
- high performance across their network and IT service;
- flexible, end-to-end secure service; and
- a trusted partner to provide ICT services.

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

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

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

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

They connect our customers to their people, their own customers and the cloud. We offer a range of flexible, intelligent hybrid and secure IP, Ethernet and internet virtual private network services. These include direct connectivity to third-party cloud services providers and the latest Network Function Virtualisation (NFV) and Software Defined Networking (SDN) solutions – the new generation of networking technologies that are giving us a new way to build and manage corporate networks that are fit for the digital age.

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

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

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

BT One
People communicate using technology in many different ways – by phone, instant messaging, email, audio and video conferencing and data-sharing, either at their desks or on mobile devices.

Businesses want these channels to be integrated and to work together easily and reliably.

Our collaboration services help customers improve productivity and cut costs by transforming the way they communicate with their customers, colleagues, partners and suppliers.

BT Contact
Our contact centre services help our customers build stronger relationships with their customers. We offer a number of ways for them to communicate, including email, web chat, video, social media and the phone – either via automated systems or dedicated advisers.

Our cloud contact solutions give companies more control over their costs, allowing them to change capacity in response to demand.

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

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

BT for Industries
Our industry-specific solutions help customers overcome particular challenges.

For example:

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

Supporting our customers' digital transformation

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

Digital customer – creating a richer experience for end customers.

Digital business – increasing business agility and innovation through cloud-based solutions.

Digital employee – creating a productive business environment through seamless employee collaboration.

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

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

In the last year we've been named as:

- a Leader in Gartner's February 2017 Magic Quadrant for Network Services, Global[a];
- a Leader in the August 2016 Gartner Global Magic Quadrant for Unified Communications as a Service, Worldwide[a];
- a Leader in the October 2016 Gartner Magic Quadrant for Contact Center as a Service, Western Europe[a]; and
- a Leader in the June 2016 Gartner Magic Quadrant for Managed Hybrid Cloud Hosting, Europe.[a]

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

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

Performance in the year – Strategic

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

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

During the year we improved:

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

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

Investing for growth

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

Our network

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

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

Our products and services

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

High-growth regions

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

Transforming our costs

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

Our cost transformation programme uses our tried-and-tested approach to improve process efficiency, reduce the cost of failure, enhance the network and improve the value for money we get from our suppliers. For example:

- **Operating model review in AMEA.** We've established a consistent and standardised set of principles to improve our performance in countries where we have a low number of resources.
- **Service delivery.** We've combined our design and delivery functions to enable faster, more consistent delivery of services at lower cost.
- **Contract reviews.** We've reviewed opportunities across shared services and third-party costs. We've also introduced improvements in the delivery and in-life support stages of contracts to improve their profitability.
- **Data centres.** We're evaluating our existing global data centre estate and consolidating our sites to lower our cost base while improving our service offering.

Performance in the year – Operating

We achieved a total order intake of £4.6bn, down 10% reflecting challenging international corporate market conditions.

The table on page 72 summarises the progress we've made on the top priorities we set out in last year's report.

Review of last year's priorities

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

Contracts we won this year include:

CUSTOMER	CONTRACT
Alstom (BT One)	Unified communications and collaboration services for 30,000 users at 300 locations.
Bridgestone Europe (BT Connect, BT One, BT Contact)	Network infrastructure and managed cloud services connecting more than 200 sites across 20 countries in Europe, Middle East and Africa.
Grupo Santander (BT Connect)	We consolidated our relationship with Grupo Santander.
International Airlines Group (BT Connect)	Network outsourcing contract to help the company simplify its IT systems and processes and improve efficiency.
Komatsu (BT Connect, BT Compute)	Global IT infrastructure covering 26 sites across 15 countries in Europe, Asia- Pacific and South-America.
Michelin (BT Connect)	Comprehensive managed network services connecting 216 sites in 43 countries.
Randstad (BT Connect, BT One)	Global IT infrastructure providing cloud connectivity to more than 3,500 sites across 37 countries.

Performance in the year – Financial

Revenue went up by 8% (2015/16: decreased 3%) including a £470m positive impact from foreign exchange movements and a £17m decline in transit revenue. Our key revenue measure, underlying revenue excluding transit adjusted for the acquisition of EE, decreased by 2% (2015/16: was flat), and excluding the revenue of our Italian business was flat.

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

[a] Revised to reflect the outcome of the investigation into our Italian business and reorganisation of our segments, see note 1 to the consolidated financial statements.

In AMEA[a] underlying revenue[c] decreased by 4% (2015/16: up 10%) due to milestone-related revenue in the prior year. In Continental Europe, underlying revenue[b] excluding transit decreased 5% (2015/16: down 1%) and, excluding the revenues of our Italian business, was up 3% (see page 88).

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

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

EBITDA increased 3% (2015/16: 3%). Underlying EBITDA[c] adjusted for the acquisition of EE was down 11% and excluding the results of our Italian business was up 1%. We have described the issues in Italy on page 88. Depreciation and amortisation was up 4% (2015/16: down 5%). Operating profit decreased by £1m (2015/16: up £36m).

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

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

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

Our top priorities for 2017/18 are:

- implement a leaner and more customer-focused operating model;
- grow our cloud-based services and our security portfolio at double-digit rates; and
- launch a new digital customer experience, leveraging automation and portfolio innovation eg NFV/SDN.

WHOLESALE AND VENTURES

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

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

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

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

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

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

We also use the EE network to provide machine-to-machine services, as explained on page 75.

[a] Asia Pacific, the Middle East and Africa (AMEA).
[b] Excludes specific items, foreign exchange movements and disposals and for 2016/17 is calculated as though EE had been part of the group from 1 April 2015.
[c] United States & Canada and Latin America (Americas).
[d] Revised to reflect the outcome into our Italian business and reorganisation of our segments, see note 1 to the consolidated financial statements.

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

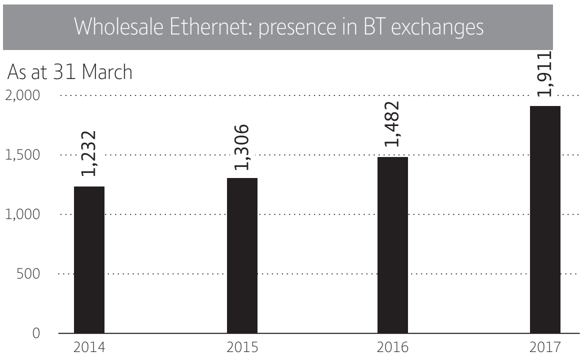
Market trends
The key wholesale market trends this year were:

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

Products and services

Broadband and Ethernet
We provide CPs with broadband and Ethernet connections between their core network and their customers. Wholesale Broadband Connect can serve 96% of premises with copper-based broadband (2015/16: 95%) and more than 26.5m premises with fibre. Our older broadband network brings our total coverage to more than 99% of all premises.

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



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

Voice
CPs use our IP Exchange (IPX) platform to carry their customers' voice calls beyond the reach of their own voice network. IPX is now used by over 170 CPs, including most of the UK's biggest operators. CPs without their own voice network can use Wholesale Calls, which routes calls for them end to end. The CP maintains the customer relationship through its own sales, customer service and billing.

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

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

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

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

Media services
Our media network connects major locations around the world where broadcast or film content is created or distributed.

In the UK it carries all of the nation's digital terrestrial TV, as well as TV broadcasts from more than 150 sports and news locations. Elsewhere, local partners help us link TV stations to major sports venues worldwide.

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

Premier League Productions	This year we installed the UK's first uncompressed outside broadcast network for Premier League Productions (PLP), a partnership between the Premier League and international sports production company IMG. We now provide live HD video feeds between all 20 Premier League football stadiums and IMG's studios in London. This means IMG can move its production facilities from the stadium to its studios; while PLP can eliminate the issues associated with distributing compressed video, such as delays and reduced image quality.

Ventures
Several of our ventures provide well-known services nationwide:

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

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

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

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

Other ventures are more enterprise-oriented:

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

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

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

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

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

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

Managed solutions
We combine our products with third-party components and our own professional services to create managed solutions that solve specific customer or industry problems.

Pelipod

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

Performance in the year – Strategic

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

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

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

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

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

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

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

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

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

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

Transforming our costs
Our many ongoing cost transformation projects continued to deliver savings through:

- reduction in supplier cost by renegotiating better terms and changing or consolidating suppliers;
- lowering our network cost by re-engineering existing platforms and improving their utilisation;
- consolidation of legacy and end-of-life platforms; and
- better productivity, together with rationalisation of support functions and overheads.

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

New BT digital street units

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

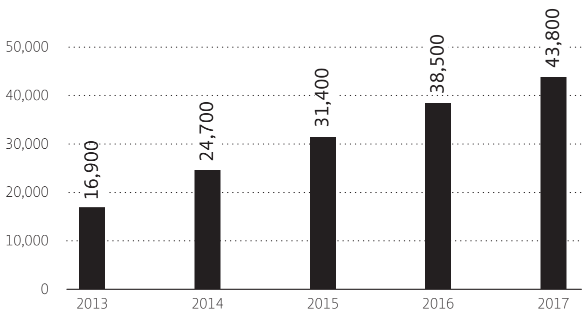
The first units will be deployed in London in 2017. We expect them to generate substantial advertising revenue while benefiting the communities in which they operate.

This year we signed almost £2bn of orders. Deals included:

- extending our MVNO deals with Virgin Media and ASDA;
- supplying an Avaya Cloud Solution for thousands of contact centre staff at a major utility provider;
- re-signing a number of large Ethernet contracts, securing those circuits for the future;
- new IoT solutions for major corporate clients; and
- taking over management of the Environment Agency's 1,350 vehicles.

Our Ethernet base grew by 14% this year, well ahead of the market. Ethernet circuits are still replacing the shrinking number of Partial Private Circuits (PPCs). The number of broadband lines we provide over fibre grew by over 60,000, but our total broadband base fell by 25,000, mainly as a result of some customers' own LLU network expansion.

Ethernet installed base
Year ended 31 March



IPX carried 22bn voice minutes. This was up 9% on last year, excluding minutes carried for EE. IPX growth has slowed now that more of the UK's major operators have completed their transition from Time-Division Multiplexing (TDM) to IP voice networks. Meanwhile the number of voice minutes that we carried over traditional TDM networks fell.

Our SIP Trunks and Hosted Centrex users grew by 24% and 40% respectively.

In BT Fleet the number of vehicles under management grew by 15%. We implemented round-the-clock working in some garages, recruited over a hundred extra technicians and appointed 47 Modern Apprentices.

We provided professional services to help upgrade and/or install over 5,000 4G basestation sites for mobile network operators.

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

Review of last year's priorities

WHAT WE SAID	WHAT WE DID
We said we'd integrate the various business units that now comprise W&V.	We launched the new W&V organisation on 1 April 2016.
We said we'd create revenue and cost synergies as a result of the new organisation.	The many services provided by our new digital street units (page 76) draw on a wide range of BT capabilities. These include payphone sites, BT Wi-fi, the fibre networks that connect the payphone to the internet and to the BT platform providing IP voice calls, BT's Next Generation Text Service, and end-to-end service management. And we've made good progress in creating cost synergies in our Supply Chain operations.
We said we'd continue to improve customer experience, especially in Ethernet delivery.	We achieved our best RFT result for many years. For Ethernet specifically we implemented a new and much improved ordering system. And we designed a new Ethernet service that will run over 4G; we'll be trialling this with customers early in the new financial year.
We said we'd further expand our Ethernet network.	We expanded our Ethernet network to another 429 exchanges.
We said we'd increase the number of customers using fibre rather than copper broadband.	Our fibre broadband base rose by over 60,000 this year.
We said we'd further strengthen our defences against attempted cyber attacks and fraud.	We've upgraded many of our internet-facing systems with additional firewall protection.
We said we'd continue our cost transformation activities.	We further reduced our own network costs and overheads, as well as third- party supplier costs.

Performance in the year – Financial

Revenue was down 7%, or 3% adjusted for the acquisition of EE, compared with a 4% decline last year. This included £30m or 37% less transit revenue than the year before.

Last year our reported numbers included all revenues from EE as a customer until the end of January 2016. Where appropriate, we give yearly comparisons both including and excluding those revenues.

Year ended 31 March	2017 £m	2016 £m	2015 £m
Revenue	**2,109**	2,274	2,361
Underlying revenue[a] excluding transit adjusted for the acquisition of EE	**(3)%**	0%	n/a
Operating costs	**1,275**	1,519	1,615
EBITDA	**834**	755	746
Depreciation and amortisation	**306**	253	245
Operating profit	**528**	502	501
Capital expenditure	**226**	209	294
Free cash flow	**587**	536	416

Revenue was down 7% or 3% adjusted for the acquisition of EE. This reflects the market decline in legacy products offset by growth in Ventures.

Managed Solutions revenue declined 33%. MEAS saw a 6% fall: mobile networks have now largely completed this phase of their network installation programme, so they added capacity at fewer sites and connected fewer new sites. This was partially offset by growth in other contracts.

Data and Broadband revenue was down 5%, driven largely by Partial Private Circuits, though there was good growth in fibre broadband. Ethernet saw a 14% increase as the rental base grew to 43,800.

Voice revenue was down 22% due to the market decline in call volumes and the inclusion of ladder revenues in last year's numbers.

Wholesale Mobile revenue was £223m, supported by growing data usage and more customers moving to 4G.

Ventures revenue of £312m was up 7% compared to last year. This was driven by growth in BT Fleet, thanks to new strategic alliances, and in BT Supply Chain which enlarged its external customer base. These were offset by a £6m reduction in BT Cables because of lower demand for copper cabling, and another £6m reduction as our Phone Book, Payphones and BT Redcare businesses declined in line with their markets.

Operating costs decreased 16%, while underlying operating costs excluding transit were down by 15%.

EBITDA grew quarter on quarter throughout the year. It was up on the prior year by 10% but down 6% adjusted for the acquisition of EE. This reflected lower revenues and the continuing migration to lower-margin IP services, offset by growth in Wholesale Mobile and Ventures.

Depreciation and amortisation was up 21% (2015/16: 3%), primarily due to the inclusion of Ventures assets such as BT Fleet vehicles. Operating profit went up by 5% (2015/16: flat).

Capital expenditure was up 8% because of investment in new MVNO platforms. Working capital was impacted by timing on managed solutions invoicing and VAT; this contributed to a 10% increase in free cash flow.

Priorities for the year ahead

Over the next 12 months we'll carry on investing for the future and further enhancing our customer experience.

Our top priorities for 2017/18 are:

Roll out new services

- start to deploy our new digital street units; and
- expand our managed services capacity, to help customers run their networks and operations.

[a] Excludes specific items, foreign exchange movements and disposals and from 2016/17 is calculated as though EE had been part of the group from 1 April 2015.

Develop new solutions

- helping mobile network operators prepare for the next generation of 5G mobile networks;
- adding 4G mobile access to our Hosted Communications Portfolio; and
- for the Internet of Things.

Improve our customer experience

- in particular our RFT delivery for Wholesale Ethernet and Hosted Communications Services.

TECHNOLOGY, SERVICE AND OPERATIONS (TSO)

TSO is our internal technology unit. It's responsible for creating and operating our global networks, platforms and IT systems.

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

We manage BT's research and development and our worldwide patent portfolio. Find out more on page 21.

There are more than 13,000 people in TSO, and this year we recruited over 220 graduates and apprentices. TSO people work on a wide variety of rapidly-changing technologies so we've developed comprehensive training and career pathways to attract and retain the best talent. For example, we now offer Degree Apprenticeships that allow apprentices to achieve a full bachelor's degree while training on the job.

Products and services
We manage the infrastructure for BT's products, services and internal systems, such as our IT systems and voice, data and TV networks.

BT manages networks for many of the world's top companies. Our people design and deliver the solutions that make this happen.

Performance in the year – Strategic

Delivering great customer experience
To overcome wi-fi problems that people can encounter in the home, we developed and launched the BT Smart Hub. This uses smart technology such as improved antennas to improve wi-fi performance.

We also developed the systems behind the new BT Call Protect service, designed to stop companies that regularly pester our customers with nuisance calls. Find out more on page 54.

Investing for growth
This year we've completed the rollout of our new Ethernet switches. They're now installed in 585 exchanges so even more businesses can access BT Ethernet services.

We're also embracing new technologies such as programmable networks. These deliver services faster and provide real-time visibility and control of a customer's network. With the launch of Dynamic Network Services we're offering these capabilities to Global Services' customers.

We've also completed the first voice calls on our single fixed and mobile infrastructure which enables us to offer new converged services such as high-definition voice calling.

Transforming our costs
Following the acquisition of EE we've taken the opportunity to review and rationalise the number of applications we use.

We're also migrating applications onto our Enterprise Cloud, making them easier to manage and lowering their running cost.

Performance in the year – operating
We're always looking for new ways to maintain and refresh the technology in our networks and service platforms.

We've seen record levels of data traffic sustained throughout the year, and our investments have been focused to maintain high levels of performance.

For example, we installed infrastructure that cuts congestion in the core network to improve the UK broadband experience. See page 19 for more on the improvements we've been making to our networks.

We've improved the reliability of the IT systems we use to trade with our customers for the fourth year in a row. We've also continued to cut our costs and the group's energy consumption. See page 33 for more details.

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

Review of last year's priorities

WHAT WE SAID	WHAT WE DID
We said we'd develop technology solutions that increase the broadband speeds for homes at the end of long copper lines.	We successfully trialled Long-Reach VDSL at Isfield, Sussex and North Tolsta on the Isle of Lewis.
We said we'd move from a technology trial to a live customer trial of an all-IP voice service.	We've started running wholesale and communications provider trials of IP voice.
We said we'd investigate technology that could provide better picture quality on our TV platform.	We've performed perception tests to see what viewers think of the latest developments in TV technology.
We said we'd enhance the cloud-based services that we offer to businesses.	We added a new software-defined WAN service to Global Services' dynamic network services portfolio.
We said we'd continue our network rationalisation.	We turned off some of the equipment in our PSTN network that we no longer needed, saving over £1m in energy costs. By removing this older equipment, we've also released spares to avoid repair costs and help contribute to the best performance of the PSTN in eight years.

Priorities for the year ahead
Over the next 12 months we'll carry on improving our networks, platforms and IT systems, and doing everything possible to help deliver a great customer experience.

Our top priorities for 2017/18 are:

Enhance the UK broadband experience
- deploy architectural and infrastructure improvements to cope with broadband traffic growth and improve the quality of the UK broadband experience.

Extend 4G coverage
- deliver upgrades to existing mobile cell sites and deploy new cell sites to increase 4G coverage in support of the Emergency Service Network contract.

Improve systems reliability
- continue to improve the reliability of our IT and network platforms, ensuring they're as resilient as possible.

OPENREACH

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

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

Communications Providers (CPs) access our network on equivalent terms, which means they have access to the same products, prices and levels of service. They use our network to deliver services ranging from home broadband, television and telephone to high-speed data connections for businesses of all sizes.

Delivering a more independent Openreach

We're pleased that the proposals to further enhance the organisational structure of our business have been accepted by Ofcom as a pragmatic solution to meeting its DCR concerns. We're fully committed to implementing the requirements of the Commitments and Governance Protocol which includes a focus on compliance, increased transparency and improved customer engagement as quickly as possible.

We've already started to introduce new governance and measures, where possible and appropriate, in advance of full implementation of the DCR agreement. For example, we've made a number of governance reforms to make Openreach a more transparent and autonomous business. In November 2016 we appointed our first chairman, Mike McTighe, who is lending our newly-formed board.

The board has a majority of independent members and will be responsible for setting Openreach's strategy and overseeing its performance. It will make sure we treat all customers equally while investing in better service, broader coverage and faster broadband speeds for the UK.

Other activity underway includes the development of a new CP consultation process for major new strategic investments and the redesign of the Openreach brand to remove the reference to BT Group and the associated logo.

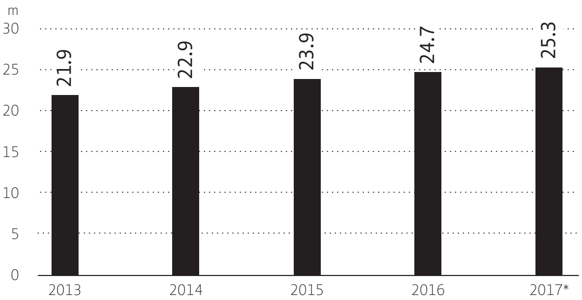
We're also preparing for the implementation of the remainder of the DCR agreement, including incorporation of Openreach Limited and the transfer of employees to it, once the preconditions have been met.

Markets and customers

The UK has the highest share of GDP generated by the digital economy of any country in the G20, and the highest superfast availability and take-up compared to our major European peers[a]. We're playing our part in this success story by building and operating the largest superfast network in the country.

At the end of December 2016 there were 25.3m broadband lines in the UK. 80% of these, excluding Hull, use the Openreach network with the rest mainly on Virgin Media's cable network.

Total UK broadband market
As at 31 March



* As at December 2016.
Source: Company data.

Our customers are the CPs who provide communications services to end customers, and property developers building new properties.

There are more than 580 CPs using our network. They operate in three markets:

- **Consumer** – made up of households using fixed-line broadband and telephone services. Our largest customers include BT's Consumer division, Sky and TalkTalk;
- **Business** – consisting of the 5.5m businesses in the UK. Most of our customers serve business clients; and
- **Infrastructure** – including firms building network infrastructure to data centres and mobile cell sites, and property developers connecting new developments.

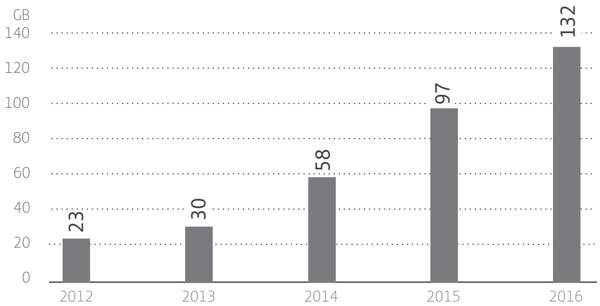
We also have relationships with communities throughout the UK who co-fund investment in fibre networks with us through Community Fibre Partnerships.

[a] France, Germany, Italy and Spain.

The market trends are:

- ongoing demand for connectivity as total fixed broadband ownership steadily rises;
- increasing data usage, propelled by video streaming driving demand for faster connections and major investment in backhaul capacity and network reach;
- cloud computing increasing corporate demand for connectivity;
- a fast-growing data centre market creating a new need for high-capacity circuits (1Gbps or more); and
- strong demand for Ethernet and optical service products as businesses seek better speeds and reliability.

Average monthly fixed data usage per residential connection
As at 30 June



Source: Ofcom Connected Nations reports 2013-2016.

Competitors
Our main competitors are other network builders, the largest being Virgin Media. Its cable network covers around half of UK homes, with plans to reach around 17m premises by 2019.

Other companies are building their own fibre access networks, reflecting the competitive nature of the market. CityFibre, Hyperoptic and Gigaclear are deploying fibre-to-the-premises across urban and rural areas, increasing the competition we face.

Competitors in the business and infrastructure markets include Virgin Media, Colt Group and Vodafone. CityFibre's prominence in this market continues to grow as it fulfils its plans to cover 50 'Gigabit cities' by 2020.

Pricing, service delivery and product innovation remain competitive themes. The 'price per Gigabit' is being pushed down by intense competition, particularly in urban areas. The introduction of a Dark Fibre product later in 2017 will increase price competition further.

Products and services
We provide network access and engineering services as well as four main products and services: copper access, fibre access, Ethernet and optical, and infrastructure solutions. Our network can carry broadcast and on-demand internet protocol television (IPTV). Our multicast service over fibre cuts the cost of broadcast TV. We also provide access to our network via our ducts and poles and will be launching a new Dark Fibre product in October 2017 (subject to CAT ruling).

Copper access
- **Wholesale Line Rental (WLR)** lets CPs offer phone services to their customers using our equipment and copper network. They pay to use the lines between our exchanges and the customer premises.
- **Local Loop Unbundling (LLU)** provides CPs with a direct connection to the local network, or local loop. CPs can install their own equipment in, or near to, our exchanges, and use it to provide phone and broadband services to their customers.

Fibre access
Our wholesale fibre product is called Generic Ethernet Access. We offer a number of versions:

- **Fibre-to-the-cabinet (FTTC)** uses fibre from the exchange to the street cabinet and the existing copper network for the final link to the customer.
- **Fibre-to-the-premises (FTTP)** uses fibre all the way from the exchange to the property and offers ultrafast speeds from 100Mbps up to 1Gbps. We've launched 500Mbps and 1Gbps speed tiers for smaller businesses needing ultrafast speeds at lower price points than Ethernet.

This allows us to offer superfast broadband (speeds over 24Mbps) via FTTC and FTTP and ultrafast broadband (speeds over 100Mbps) via G.fast and FTTP.

Ethernet and Optical
CPs use these high-speed fibre connections to build and extend their networks and provide high-quality, high-bandwidth services to businesses and the public sector.

- **Ethernet Access Direct (EAD)** offers competitive services, from 10Mbps to 10Gbps, to all UK businesses and infrastructure markets.
- **Optical Spectrum Services (OSS)** are scalable wavelength solutions offering up to 100Gbps at any distance.

Infrastructure solutions
Our infrastructure solutions let CPs build their own networks. They allow third parties to request rearrangements of our network and for us to work on their networks.

- **Flexible Co-mingling** allows CPs to place their equipment in our exchanges.
- **Physical Infrastructure Access (PIA)** lets CPs use our ducts and telephone poles to deploy their own fibre networks. PIA has been available since 2011.
- **Mobile Infill Infrastructure Solution (MiiS)** lets CPs install their radio equipment in special cabinets linked to antennas on telephone poles and use their spectrum to improve mobile coverage.
- **Network rearrangements** help third parties to progress their projects by moving or removing our network.

Performance in the year – Strategic
Delivering great customer experience
The internet is an essential part of modern life. Every year, customers expect more from the service we provide, and we're committed to meeting their needs.

The table on page 84 shows Openreach's service performance on a number of key measures known as Minimum Service Levels (MSLs). These are quality of service standards for installation and repair which are set by Ofcom and increase annually. In May 2016, six Ethernet MSLs were added to the existing set of 60 copper MSLs. We publish this data quarterly with additional levels of detail.

This year we exceeded all 40 of Ofcom's copper MSLs that were due in the year, for the third year in a row. And we remain ahead on the other 20 which are measured to March 2018.

We keep making progress with our Ethernet delivery, improving quality of service, providing more Ethernet circuits than ever before, and reducing the average age and number of jobs in our workstack.

Even so, we're disappointed that we've missed one of the Ethernet MSLs due to the impact of our most complex Ethernet orders, where we experience delays that aren't fully within our control such as road traffic management.

We launched the 'Better service' campaign to make real improvements in our customer service. We halved missed appointments by the end of the financial year. And we invested £32m to improve resilience and reduce network faults. We also cut the number of customers waiting over 90 days for new orders by 60%[a].

Our Customer Satisfaction Score is provided by end customer surveys from our CP customers. The CPs' sampling strategy has changed through the year making a like-for-like comparison difficult and has resulted in our performance being under reported. We're working with the CPs to standardise sampling to enable future year-on-year comparisons.

Right First Time, improved by 5.1% (down 6% in 2015/16), focusing particularly on time to repair. We completed 79% of repairs on time[b], a four percentage point increase compared with last year, and reduced the average time to restore service by five hours. We see the MSLs as a baseline and set ourselves a more challenging RFT target because we know there's more to be done to deliver the service our customers expect.

We've proactively improved our PIA processes by providing greater flexibility and self-service options. These include a digital map of our network which makes it quicker and easier for CPs to understand where our ducts and poles can help them to roll out fibre.

[a] For copper-based service
[b] For LLU, WLR, PSTN and NGA services

Improvement
Steady performance – maintaining focus
Further improvement needed – plans in place to get back on track

OPENREACH PERFORMANCE AGAINST SERVICE RESPONSIBILITIES

	Movement	Q4 2016/17	Q4 2015/16
Home and smaller businesses			
Average time to install with an engineer (working days)	Improvement	13.22	14.44
Average time to install without an engineer (working days)	Steady	9.64	9.49
Installation requiring an engineer where wait is 22 days or longer for an appointment	Improvement	0.37%	1.12%
Average time for first available appointment date for new installation (working days)	Improvement	6.82	8.51
New lines requiring an engineer visit not installed 31 days past target date	Further improvement needed	1.65%	1.34%
Average time to fix faults Maintenance level 1 (working days)	Improvement	1.99	2.82
Average time to fix faults Maintenance level 2 (working days)	Steady	1.72	1.94
Faults not cleared after 31 days or more Maintenance level 1	Improvement	0.62%	1.60%
Faults not cleared after 31 days or more Maintenance level 2	Improvement	0.94%	1.79%

	Movement	Ofcom minimum standard	Q4 2016/17	Q4 2015/16
Home and smaller businesses Minimum Service Levels				
New lines installed on time (WLR3)	Improvement	89%	94.55%	93.84%
New lines installed on time (MPF)	Improvement	89%	94.14%	93.02%
First available appointment date for new installation (working days) 12 days or less (WLR3)	Improvement	79%	92.91%	86.54%
First available appointment date for new installation (working days) 12 days or less (MPF)	Improvement	79%	95.38%	89.65%
Faults fixed within agreed time Maintenance level 1	Improvement	77%	86.54%	74.53%
Faults fixed within agreed time Maintenance level 2	Improvement	77%	81.87%	76.14%

	Ofcom minimum standard	2016/17 full year
Larger business Minimum Service Levels		
Average time to install (working days)	46	41.4
Delivery date certainty	80%	85.4%
Circuits provided in 30 working days	40%	57.4%
Circuits provided in more than 159 working days	3%	3.2%
Average time to initial CDD[a] (working days)	61	40.2
Faults fixed within agreed time	94%	94.2%

Notes:
The homes and smaller businesses tables compare performance in the quarter and are not annual measures.
The larger business measures have had an adjustment applied to them in line with the Ofcom measurement methodology.
[a] Contractual Delivery Date.

Investing for growth
We've invested £11bn in Britain's digital infrastructure over the last ten years, committing over £3bn to create a fibre network that provides affordable high-speed broadband to the vast majority of the UK.

Our ambition is to deliver ultrafast speeds to 12m homes and businesses by 2020 using FTTP and G.fast. Our G.fast technology can deliver ultrafast speeds of 300-500Mbps over existing copper wires with minimal disruption. This technological capability will allow us to offer speeds of over 100Mbps to 10m homes by 2020. After a successful trial we're rolling out G.fast to 17 locations as part of our pilot deployment phase.

We keep extending, upgrading and maintaining our copper network which underpins most of our services in the UK. We've raised preventative maintenance spend by 104% compared to last year and this will make our network more weather resilient in future.

Our new Dark Fibre product will launch in October 2017 (subject to CAT ruling[a]). This will provide a dedicated, unmonitored, unlit optical fibre path between two sites up to 86km apart. CPs can use this to build connectivity solutions.

Investing in our people

We've a workforce of 30,400 people, including skilled network engineers and planners who maintain our access network.

This year we invested in hiring over 1,500 people including around 250 apprentices and graduates. Our apprentices are trained on a wide range of skills relating to provision and repair activities to improve customer service. Our graduates complete a variety of project roles in order to learn the business, before taking on roles within our operational teams.

Most of our new recruits, including 50 apprentices, have moved into front-line customer service engineering roles across the country. Another 75 will increase our in-house civil engineer capability. We're training 100 apprentices on fibre jointing to improve Ethernet delivery and another 65 have been trained on connectorised fibre for our superfast broadband network build.

We also launched our Fibre Academy and showcase to give our apprentices and engineers the training and hands-on experience they need.

Transforming our costs

We keep reviewing the way we work, simplifying our business to cut the cost of delivery while improving customer experience.

This year we:

- completed a 'civils insourcing trial'. As a result we're now insourcing certain civils activities to improve customer experience;
- consolidated desk-based teams from over 400 locations down to 32 larger 'centres of excellence'. This will better support the sharing of best practice and create better working environments; and
- cut the number of Ethernet orders awaiting completion by improving our operational processes.

Performance in the year – operating

This year we made our fibre network available to a further 1.1m premises. We achieved 1.8m fibre broadband net additions, with a total of 7.7m homes and businesses in the UK choosing to take a fibre service. We grew our Ethernet base by 13% and exceeded all the increased copper MSLs set by Ofcom.

External CPs accounted for 923,000 of the 1.8m fibre broadband net additions, an increase in share of 4% from last year, demonstrating the market-wide demand for fibre.

The physical line base decreased by 153,000 following a 29,000 increase the year before[b].

Investing in fibre

We keep investing heavily in our fibre network which now passes more than 26.5m premises nationwide.

This year we launched new ultrafast products for SMEs and business parks. Our FTTP network is the largest in the UK and we delivered more FTTP this year than in any previous year.

[a] This relates to our appeal to the Competition Appeal Tribunal of Ofcom's BCMR market review decision – see page 31. 'Other regulatory decisions and activities – Business connectivity market and cost attribution'.

[b] Last year's report stated a 2,000 line increase and the has been amended to include FTTP lines.

In May 2016 we launched our offer to connect fibre-to-the-premises for free to all developments of new sites with over 100 plots, then lowered the threshold to over 30 plots[a] in November 2016.

Extending our reach

We're still working in partnership with the BDUK programme to bring fibre broadband to communities who can't currently access it, completing 39 of our 45 contracts this year. We're also deploying our Superfast Extension Programme (SEP) in partnership with the Government.

We're committed to working with local communities to deploy co-funded solutions under our Community Fibre Partnerships programme. To date we've worked with over 200 communities, and have over 100 more in the pipeline for upgrades

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

Review of last year's priorities

WHAT WE SAID	WHAT WE DID
We said we'd achieve our goal of 95% on-time installations by the end of December 2017, ahead of Ofcom's minimum service level.	We're on track to hit this RFT goal.
We said we'd work with Government to help take fibre broadband to 95% of the country by the end of December 2017.	We've made our fibre network available to another 1.1m premises this year, bringing the total to 26.5m across the UK.
We said we'd get ultrafast broadband to 10m premises, with an ambition of 12m, by the end of 2020.	We've built ultrafast broadband to 500,000 premises and have more than 98,000 customers, a 77% increase compared to last year.
We said we'd recruit 1,000 frontline engineers to deliver further improvements in service.	We recruited over 1,500 people, mostly engineers, to enable faster repairs and provide greater contingency. Around 250 of these new recruits were apprentices and graduates.
We said we'd work to deploy FTTP using microfibre technology.	We've introduced connectorised FTTP technology and halved the mean time to provide on our existing network this year.

Ofcom investigation into historical use of Deemed Consent

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

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

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

[a] New sites with over 30 plots registered from 10 November 2016.

Performance in the year – financial

Despite around £230m of regulatory price changes, we held revenue flat thanks to strong demand for fibre products.

Year ended 31 March	2017 £m	2016 £m	2015 £m
Revenue	**5,098**	5,100	5,011
Operating costs	**2,465**	2,441	2,414
EBITDA	**2,633**	2,659	2,597
Depreciation and amortisation	**1,369**	1,301	1,348
Operating profit	**1,264**	1,358	1,249
Capital expenditure	**1,573**	1,447	1,082
Free cash flow	**1,349**	1,415	1,497

Revenue was flat (2015/16: 2% increase) with a 35% increase in fibre broadband revenue being offset by regulatory price drag which had an overall negative impact of around £230m, equivalent to 5% of our revenue.

Operating costs were up 1% (2015/16: 1%) reflecting the investment we made to deliver our copper minimum service levels, halve missed appointments by the end of the financial year and upskill our workforce. We also saw higher service level guarantee costs associated with the delay in fulfilling a number of older and more complex Ethernet orders.

EBITDA decreased 1% (2015/16: 2% increase). With depreciation and amortisation up 5% (2015/16: down 3%), operating profit was down 7% (2015/16: up 9%).

Capital expenditure was £1,573m, up £126m or 9% (2015/16: up £365m or 34%) reflecting our ongoing investment in fibre coverage and speed, and the delivery of more complex Ethernet circuits. This was after gross grant income of £159m (2015/16: £320m) directly related to our activity on the BDUK programme build and offset by the deferral of £185m of the total grant income (2015/16: £227m) due to strong levels of fibre broadband take-up. This is primarily because we increased our base-case assumption for take-up to 39% in BDUK areas and under the terms of the programme, we have a potential obligation to either re-invest or repay grant funding depending on factors including the level of customer take-up achieved.

Operating cash flow decreased 5% (2015/16: 5% decrease) largely due to the timing of BDUK funding receipts and other working capital movements.

Priorities for the year ahead

Over the next 12 months, we'll continue to invest in our fibre network and ensuring a great customer experience.

Our top priorities for 2017/18 are:

Connecting Britain to the future

- getting ultrafast broadband to 10m premises using G.fast and an ambition to reach a further 2m via FTTP, by the end of 2020; and
- working to deploy FTTP using microfibre technology.

Delivering a great customer experience

- achieving our RFT goal of 95% on-time installations by the end of 2017, ahead of Ofcom's minimum service level;
- recruiting 1,500 frontline engineers to deliver further improvements in service; and
- driving higher investment in fibre skills and growing our Fibre Academy.

Working with Government and industry

- working with the Government to support its objective for a Universal Broadband Commitment; and
- launching a consultation with industry to inform on future FTTP planning.

GROUP PERFORMANCE

SUMMARY FINANCIAL PERFORMANCE FOR THE YEAR

We've already explained how we performed against our key performance indicators as set out on page 10. In this section we've discussed further our performance.

We assess the performance of the group using a variety of performance measures. These measures are not defined under IFRS and therefore termed 'non-GAAP' measures. A reconciliation from these non-GAAP measures to the nearest prepared measure in accordance with IFRS is presented on pages 225 to 227. The alternative performance measures we use may not be directly comparable with similarly titled measures used by other companies.

Our investigation into our Italian business

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

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

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

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

How we responded
The inappropriate behaviour in our Italian business is an extremely serious matter. It has no place in BT and we took immediate steps to improve the financial processes and controls in that business. We suspended a number of BT Italy's senior management team who have now left the business. The president of our European operations has also left the business.

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

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

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

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

The BT Group *Remuneration Committee* has also considered the wider implications of the BT Italy investigation.

What we will do going forward

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

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

Transforming our costs

Our integration of EE is going well. We've achieved around £150m of run-rate cost synergies in our first year, exceeding our target of £100m, as we've been able to realise synergies earlier than originally planned. We continue to expect cost synergies to reach a run-rate of around £400m in the fourth year. We've delivered savings this year through renegotiating supplier terms and reducing the number of head office employees. We've also insourced a number of activities where possible, including all roaming management, EE Facilities management and core mechanical and engineering field operations.

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

Global Services Strategic Review

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

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

Prior year revision and re-classifications
Investigation into our Italian business
Our investigations into our Italian business revealed inappropriate behaviour and improper accounting practices. We identified £268m of errors in relation to prior years and a specific items charge of £260m in the current year for changes in accounting estimates and investigation costs.

Revised presentation of cash pooling arrangements
We've also revised the presentation of our cash pooling arrangement following the release of an IFRIC clarification on IAS 32 'Financial instruments presentation offsetting and cash pooling arrangements' in April 2016. This requirement resulted in us grossing up cash and cash equivalents and short-term loans and other borrowings by £499m at 31 March 2016 and £414m at 31 March 2015 with no impact on the income statement.

EE purchase price accounting
Subsequent to our 29 January 2016 acquisition of EE, we've finalised our purchase price accounting within the period allowed under IFRS 3 'Business Combinations'. We also received £20m from the previous owners of EE as a result of the finalisation of the audit of the completion balance sheet. The changes after considering taxation resulted in an increase in goodwill of £29m as of 31 March 2016 with no material impact on the income statement.

The effect on prior years' income statement, balance sheet and cash flow statements is set out in page 118 to 120 in note 1 to the financial statements.

Summarised income statement

Year ended 31 March **Before specific items**	**2017** **£m**	**2016[a]** **£m**	**2015[a]** **£m**
Revenue	24,082	18,879	17,840
Operating costs[b]	(16,434)	(12,421)	(11,641)
EBITDA	**7,648**	**6,458**	**6,199**
Depreciation and amortisation	(3,510)	(2,631)	(2,538)
Operating profit	**4,138**	**3,827**	**3,661**
Net finance expense	(400)	(151)	(344)
Associates and joint ventures	(9)	6	(1)
Profit before taxation	**3,729**	**3,682**	**3,316**
Taxation	**(702)**	**(674)**	**(678)**
Profit for the year	**3,027**	**3,008**	**2,638**

a The comparative information of the current period results has been revised to reflect the outcome of the investigation into our Italian business.
b Excluding depreciation and amortisation.

Revenue
Reported revenue, which includes specific items, was up 27%. Adjusted revenue was up 28% at £24,082m. Both of these increases were driven by the impact of EE being part of the group for the full year.

We had a £522m positive impact from foreign exchange movements and a £64m reduction in transit revenue. Excluding these, underlying revenue excluding transit adjusted for the acquisition of EE was down 0.2% (2015/16: up 1.9%).

Consumer revenue was up 7% with a 13% increase in broadband and TV revenue and a 4% increase in calls and lines. EE underlying revenue adjusted for the acquisition of EE was up 1% mainly due to the success of our 'more for more' pricing strategy. Openreach revenue was flat with the impact of regulatory price reductions offsetting the continued growth in fibre. Underlying revenue excluding transit adjusted for the acquisition of EE was down 3% in Wholesale and Ventures as a result of the continuing decline in Partial Private Circuits and call volumes. Business and Public Sector underlying revenue excluding transit adjusted for the acquisition of EE was down 6% due to the decline in UK public sector revenue. Global Services underlying revenue excluding transit adjusted for the acquisition of EE was down 2% and excluding revenue from our Italian business was flat.

You can see a full breakdown of reported revenue by major product and service category in note 4 to the consolidated financial statements.

Operating costs
Reported operating costs were up 36% while adjusted operating costs before depreciation and amortisation increased 32%.

Our adjusted operating costs before depreciation and amortisation were £16,434m, up £4,013m (2015/16: £780m) driven by the acquisition of EE and adverse impact of foreign exchange. For the group, other operating costs were up £2,305m or 61%, primarily reflecting EE's subscriber acquisition and retention costs, and adverse foreign exchange movements.

Underlying operating costs excluding transit adjusted for the acquisition of EE were up 1%. This reflects additional UEFA rights costs and the new Premier League rights contract, increased investment in mobile handsets and continued investment in improving customer experience, offset by the benefits of our cost transformation programme.

Programme rights charges increased £170m to £714m, primarily reflecting our investment in BT Sport. Property and energy costs were up 17%, payments to telecommunications operators (POLOs) were up 22% and network operating and IT costs were up 53%, with these all being impacted by EE. Net labour costs increased by 13% despite a reduction in leaver costs of £23m (2015/16: £109m) due to the impact of EE.

You can see a detailed breakdown of our operating costs in note 5 to the consolidated financial statements.

EBITDA
Adjusted EBITDA, which is before specific items, was £7.6bn.

Underlying EBITDA adjusted for the acquisition of EE was down 3%. This is mainly as a result of declines in UK public sector and our investment in improving customer experience.

You can see further details for EBITDA for the lines of business on pages 53 to 87.

Specific items
As we've explained on page 88, in this performance review we primarily explain our results before specific items. That's because this is how we measure the sustainable performance of our business.

The table below outlines items we've treated as specific items:

Year to 31 March	2017 £m	2016 £m	2015 £m
Specific revenue			
Italian business investigation (see page 88)	22	–	–
Regulatory matters	(2)	(203)	(128)
EE fair value adjustment	–	70	–
Specific revenue	**20**	**(133)**	**(128)**
Specific operating costs			
Regulatory matters (see page 92)	481	203	75
Italian business investigation (see page 88)	238	–	–
EE acquisition and integration costs	215	113	19
Out of period irrecoverable VAT	30	–	–
Profit on disposal of businesses	(16)	–	(6)
Property rationalisation costs	–	29	45
Restructuring charges	–	–	315
Profit on disposal of property	–	–	(67)
Specific operating costs	**948**	**345**	**381**
Specific net finance expense	**210**	**229**	**299**
Profit on disposal of interests in associates and joint ventures	**–**	**–**	**(25)**
Tax credit	**(217)**	**(166)**	**(121)**
Net specific items charged after tax	**961**	**275**	**406**

This year, specific items resulted in a net charge after tax of £961m (2015/16: £275m).

There was a net charge of £260m (2015/16: nil) arising from changes in accounting estimates regarding the value of the assets and liabilities of our Italian business, including professional fees incurred.

We've recognised a net cost of £479m (2015/16: £nil) in relation to regulatory matters. These are made up of the following:

- Deemed Consent: A charge of £342m was recognised (2015/16: £nil) in relation to Ofcom's March 2017 findings on our historical practices over the use of Deemed Consent. This includes a fine of £42m which has been imposed and we've also agreed to compensate Communication Providers, with the precise amount of the compensation to be determined but currently estimated at £300m.
- Re-assessment of other regulatory risks: We've also re-assessed our regulatory risks in light of recent regulatory decisions by Ofcom and the Competitions Appeals Tribunal. As a result we've increased our net provision by £137m (2015/16: £nil) in the year.
- Ladder pricing agreements: In 2016/17 we recognised revenue and costs of £8m (2015/16: £203m) being the prior year impacts of ladder pricing agreements with the other UK mobile operators.

We incurred £215m of EE integration costs (2015/16: EE acquisition-related costs £96m and integration costs of £17m). This includes a £62m (2015/16: £nil) specific amortisation charge relating to the write off of IT assets as we integrate the EE and BT IT infrastructure.

We recognised an out of period irrecoverable VAT charge of £30m during the year (2015/16: £nil) and a £1m interest expense. In addition to the above, we also treated a number of other items as specific, such as the net interest expense on pensions of £209m (2015/16: £221m). The decrease from 2015/16 mainly reflects a fall in the IAS 19 discount rate between 31 March 2016 and 31 March 2017.

We also recognised a tax credit of £63m (2015/16: £96m) for the re-measurement of deferred tax balances due to the upcoming changes in the UK corporation tax rate from 20% to 19% from 1 April 2017 and to 17% from 1 April 2020. The tax credit on specific items (excluding the re-measurement of deferred tax) was £154m (2015/16: £70m).

In 2015/16 we recognised a fair value adjustment on the acquisition of EE which reduced the amount of revenue recognised between acquisition and 31 March 2016.

You can see details of all revenue and costs that we have treated as specific items in the income statement in the last three years in note 8 to the consolidated financial statements.

Profit before tax
Reported profit before tax (which includes specific items) was down 21% to £2,551 while adjusted profit before tax was up 1% at £3,729, due to the contribution from EE.

We discuss depreciation, net finance expense and tax in later sections of this performance review.

Dividends
A dividend of £2,350m (2015/16: £1,450m) was settled on 12 May 2016 in relation to the year ended 31 March 2016. This is disclosed in the group statement of changes in equity. No dividend has been declared in relation to the year ended 31 March 2017.

Cash flow
We generated a net cash inflow from operating activities of £6,179m. We discuss further our cash flows on page 93.

Summarised cashflow statement

Year ended 31 March	2017 £m	2016[a] £m	2015[a] £m
Cash generated from operating activities	**6,730**	5,408	5,097
Income taxes paid	**(551)**	(256)	(309)
Net cash inflow from operating activities	**6,179**	5,152	4,788
Cash flow from investing activities			
Interest received	**7**	10	10
Dividends received from associates and joint ventures	**2**	17	–
Disposals and acquisitions	**51**	85	10
Movement on non-current amounts owed by ultimate parent company	**(1,571)**	(4,767)	(1,046)
Net movement on current financial assets	**1,423**	666	(1,774)
Capital expenditure	**(3,119)**	(2,431)	(2,310)
Other	**(22)**	–	8
Cash flow from financing activities			
Interest paid	**(629)**	(558)	(590)
Proceeds from loan from ultimate parent company	**–**	–	1,003
Loans and borrowings	**(2,302)**	1,900	(395)
Net increase (decrease) in cash and cash equivalents	**19**	**74**	**(296)**

[a] Certain prior year results have been revised to reflect the outcome of the investigation into our Italian business. See note 1 to the consolidated financial statements.

We've made investments for the future of our business, while supporting our pension, funding BT Group plc's share buyback programme and paying dividends to our parent company.

The outflow from non-current amounts owed by the ultimate parent company mainly comprised the funding of the ultimate parent company's payments of equity dividends of £1,435m (2015/16: £1,075m) and share buyback programme of £206m (2015/16: £315m), offset by the proceeds of the ultimate parent company's issue of treasury shares of £70m (2015/16: £90m). In 2015/16, this outflow also comprised the funding of the ultimate parent company's acquisition of EE of £3,464m.

The explanations for the interest paid and loans and borrowings cash flows are outlined in subsequent pages in this performance review.

The net cash inflow of £1,423m (2015/16: £666m) on current financial assets comprises both the investment and redemption of amounts held in liquidity funds and term deposits.

Capital expenditure is discussed further below.

The net cash cost of specific items was £205m (2015/16: £232m). This included: EE acquisition and integration related costs of £111m (2015/16: £114m); restructuring costs of £51m (2015/16: £85m); and ladder pricing payments of £1m (2015/16: £41m receipts).

Capital expenditure

We continue to make significant investments in line with our strategy including a focus on improving customer experience.

The Design Council is accountable to the BT Group plc Operating Committee for delivering an efficient and optimised investment plan, aligning investment decisions across our networks, systems, platforms and products so that they are directed towards our strategic priorities.

2016/17 is the first full year including EE. Capital expenditure therefore includes the investment EE is making to expand coverage, improve network speed and performance whilst continuing to offer innovative products and excellent customer experience. We're also investing in the integration of EE into the wider group to drive both revenue and cost synergies.

For the year, our capital expenditure, inclusive of net grant deferral was £3,454m (2015/16: £2,622m, 2014/15: £2,317m).

In recent years we've prioritised our capital expenditure to underpin our strategy to deliver sustainable revenue growth, and to expand coverage and capacity whilst enhancing speed and resilience of both our fixed access network and our mobile network.

Key investments this year include:

Capacity/network investments

- increasing the footprint of our superfast fibre broadband network, including extending the reach of superfast broadband to rural areas under the BDUK programme. We've now passed more than 26.5m homes and businesses;
- the launch of our Ultrafast broadband trial now with 500k premises passed;
- enhancing and expanding our mobile network coverage, including the delivery of the ESN contract; and
- continued investment in convergence of fixed and mobile services.

Customer driven investments

- continued development of customer contract-specific infrastructure for our global clients; and
- deployment of Ethernet, including reduction in the existing workstack, and copper/fibre connections to homes and businesses.

Systems/IT investments

- improving customer experience by enhancing our online contacts systems, order and repair journeys as well as developing new products, such as our nuisance calls blocker.

Non-network infrastructure

- Investment in our property estate, including integration of EE and BT people into the same locations.

Capital expenditure was £3,454m (2015/16: £2,622m). This consists of gross expenditure of £3,426m (2015/16: £2,731m) which has been increased by net grant deferral of £28m (2015/16: £109m decreased by net grant funding) mainly relating to deferral of grant funding in the BDUK programme. This is driven by the base-case assumption for take-up in BDUK areas being increased to 39% of total homes passed following our review of the level of customer take-up. While we have recognised gross grant funding of £160m (2015/16: £338m) in line with network build in the year, we have also deferred £188m (2015/16: £229m) of the total grant funding to reflect higher take-up levels on a number of contracts. The increase in take-up assumption shows the high demand on our fibre network driven by customers taking advantage of faster speeds to consume more data. To date we have deferred £446m (2015/16: £258m).

Of the total group capital expenditure £69m (2015/16: £5m) related to the integration of EE. Additionally, £272m, (2015/16: £248m, 2014/15: £231m) arose outside the UK. Capital expenditure contracted but not yet incurred was £889m at 31 March 2017 (2015/16: £922m, 2014/15: £507m).

Depreciation and amortisation
Depreciation and amortisation has increased by 33% to £3,510m (2015/16: £2,631m, 2014/15: £2,538m) due to the inclusion of EE depreciation and amortisation for the full financial year.

Net finance expense
Reported net finance expense has increased £230m to £610m. Net finance expense before specific items of £400m (2015/16: £151m) increased by £249m.

Year ended 31 March Before specific items	2017 £m	2016 £m	2015 £m
Interest on borrowings	620	529	567
Capitalised interest	–	–	(2)
Fair value movements on derivatives	12	11	14
Total finance expense	632	540	579
Total finance income	(232)	(389)	(235)
Net finance expense	400	151	344

Finance expense of £632m (2014/15: £540m) increased by £92m as average gross debt is higher than last year as a result of the group's acquisition of EE.

Finance income of £232m (2015/16: £389m) decreased by £157m mainly due to lower average balances due from the parent and ultimate parent companies.

Taxation
Our effective tax rate before specific items was 18.8% (2015/16: 18.3%) . We paid income taxes of £551m (2015/16: £256m).

Our tax contribution
We are proud to be a major contributor of taxes to the UK economy. In 2016 we bore UK taxes of £893m and collected £2,985m of taxes. The One Hundred Group 2016 Total Tax Contribution Survey ranked us as the 5th highest contributor in the UK.

We paid UK corporation tax of £471m. We benefited from £117m of EE's historical tax losses (2015/16: £20m) and £110m from tax deductions associated with employee pension and share schemes (2015/16: £208m).

Our approach to tax
We seek to ensure that our business develops in a tax-efficient manner that embodies our wider corporate purpose. In doing this we comply with the tax rules of the countries where we do business and deal with their tax authorities in an open and constructive manner. We take the benefit of widely claimed tax incentives and apply OECD principles.

Tax governance
We maintain a limited appetite for tax risk by requiring a strong connection between tax planning and our business and by requiring reasonably likely publicity to be neutral in nature. We seek out opportunities that meet these requirements where there is reasonable tax technical merit and we are confident that we can manage any organisational complexities.

We have a framework for managing taxes that is set centrally and agreed by the Board. We employ suitably qualified professionals to manage the operation of this framework, who report to the group finance director. Compliance with this framework is tested by our internal audit function.

Tax expense
Our tax expense recognised in the income statement before specific items was £702m (2015/16: £674m). In addition we recognised a £445m tax credit (2015/16: tax charge of £235m) in the statement of comprehensive income, principally in relation to our pension scheme.

We expect our income statement effective tax rate before specific items to be around the UK rate of corporation tax, as the majority of our business occurs in the UK. In the current year, our rate is lower than this because we recognised tax credits in respect of historical overseas tax losses and prior period tax items.

Year ended 31 March **Before specific items**	**2017** **%**	**2016** **%**	**2015** **%**
Tax at UK statutory rate	20.0	20.0	21.0
Non-UK results taxed at different rates	0.3	(0.2)	0.6
Net permanent differences	0.7	0.3	–
	21.0	**20.1**	**21.6**
Changes to prior year estimates	(1.1)	(2.5)	(1.1)
Deferred tax accounting for non-UK losses	(1.1)	0.7	(0.1)
Effective tax rate	**18.8**	**18.3**	**20.4**

The UK tax rate fell to 19% on 1 April 2017 and will fall to 17% on 1 April 2020, which should reduce our expected effective tax rate. Recognition of further deferred tax assets on historical overseas tax losses would also reduce our future rate. Changes to our estimates of uncertain tax positions may increase or reduce our future rate.

We have booked a tax benefit of £39m in respect of UK patent incentives (2015/16: £37m). We do not expect this to be affected materially by the OECD's Base Erosion and Profit Shifting project.

Key tax risks
Our key uncertainties are whether EE's tax losses will be available to us, whether our intra-group trading model will be accepted by a particular tax authority and whether intra-group payments are subject to withholding taxes.

Additionally we have extensive and long standing UK operations that necessarily require the use of estimates. We routinely work with HMRC to validate these estimates.

Tax losses
We have an asset of £270m relating to tax losses on our balance sheet. This relates mainly to historical tax losses acquired with EE. We expect to be able to use this against future profits of EE.

In addition we have £4.2bn of income tax losses that we've not given any value to on our balance sheet. We might be able to use these losses to offset future profits, however we currently do not consider this probable. We also have £17.0bn of UK capital losses, which we have no expectation of being able to use.

We've given more details in note 9 to the consolidated financial statements.

Summarised balance sheet

Our balance sheet reflects our significant investment in the network infrastructure assets that are the foundation of our business, as well as the working capital with which we manage our business day by day.

It also reflects the longer-term strategy with which we finance our investment, and our obligation to the pension fund.

At 31 March	2017 £m	2016[a] £m	Movement £m
Property, plant and equipment, software and telecommunications licences	20,884	20,531	353
Goodwill and other intangible assets	10,651	10,898	(247)
Other non-current and current assets	14,629	14,207	422
Trade and other receivables	4,220	4,205	15
Investments, cash and cash equivalents	2,266	4,260	(1,994)
Total assets[b]	**52,650**	**54,101**	**(1,451)**
Loans and other borrowings	(13,896)	(15,785)	1,889
Trade and other payables	(7,476)	(7,463)	(13)
Other current and non-current liabilities	(2,398)	(2,288)	(110)
Provisions	(1,161)	(743)	(418)
Deferred tax liability	(1,240)	(1,262)	22
Pensions, net of deferred tax	(7,553)	(5,235)	(2,318)
Total liabilities	**(33,724)**	**(32,776)**	**(948)**
Total equity	**18,926**	**21,325**	**(2,399)**

[a] Revised. See note 1 to the consolidated financial statements .
[b] Excluding deferred tax asset relating to BT's defined benefit pension schemes.

Our core fixed and mobile network infrastructure is included within property, plant and equipment, software and telecommunications licences. These assets were held at a net book value of £20.9bn at 31 March 2017. The net increase of £353m in the year primarily reflects capital expenditure of £3,454m exceeding the related depreciation and amortisation charge of £3,189m, and a net foreign exchange gain of £87m.

Goodwill and other acquisition-related intangible assets decreased by £247m, primarily reflecting the impact of foreign exchange translation of overseas non-current assets. This also reflects the outcome of our re-assessment of the provisional assets and liabilities fair values recognised in our 31 March 2016 financial statements as part of the acquisition of EE.

We review the recoverable amounts of goodwill annually across our cash generating units which hold goodwill, which are Consumer, EE, Business and Public Sector, Global Services, and Wholesale and Ventures, and are satisfied that these support the carrying value of goodwill (see note 11 to the consolidated financial statements).

Other non-current and current assets and liabilities relate primarily to our financial instruments, which we've described in note 25 to the consolidated financial statements. It also includes inventories which have increased by £38m as outlined in note 15 to the consolidated financial statements.

Trade and other receivables increased by £15m to £4,220m while trade and other payables of £7,476m were £13m higher. Despite these movements, the unwinding of the effects of improper working capital transactions in our Italian business resulted in a working capital outflow of £382m.

Loans and other borrowings were £13,896m compared with £15,785m at 31 March 2016, a decrease of £1,889m.

At 31 March 2017 £1,044m was due to the ultimate parent company in respect of the proceeds from the equity placing in February 2015 for the acquisition. BT Group plc issued 222m ordinary shares for £1.0bn and transferred these proceeds to BT plc.

Bond maturities in June 2016, December 2016 and February 2017 resulted in a cash outflow of £1,787m.

Short term borrowings of £2.1bn include term debt of £1.4bn repayable in 2017/18 and £0.7bn for the outstanding portion of our overdraft and collateral for open mark-to-market positions.

Provisions increased by £418m to £1,161m mainly due to an increase in regulatory provisions which was treated as a specific item. We have a significant property portfolio which includes both office buildings and former telephone exchanges (see page 20). Property provisions, which mainly comprise onerous lease provisions, amounted to £292m. There are also asset retirement obligations of £83m relating to leased mobile sites forming part of the EE network. You can find more information about these provisions in note 18 to the consolidated financial statements.

We've shown deferred tax movements in note 9 to the consolidated financial statements. Pensions, net of deferred tax, increased by £2.3bn to £7.6bn and are discussed below. Equity has deteriorated compared with the prior year due to the actuarial losses relating to retirement benefit obligations, being more than the profit for the year.

Pensions

Overview

We provide a number of retirement plans for our employees:

- The BT Pension Scheme (BTPS), a defined benefit plan in the UK, is the largest of these plans. Although closed to new members, the BTPS still has around 32,500 active members, 199,500 pensioners and 64,000 deferred members.
- The BT Retirement Saving Scheme (BTRSS) is a contract-based, defined contribution arrangement operated by Standard Life. This is the current arrangement for UK employees who joined BT after 1 April 2001. It has around 32,500 active members.
- EE operates the EE Pension Scheme (EEPS), which has a defined benefit section that is closed to future accrual and a defined contribution section which has around 11,000 active members.
- We also maintain retirement arrangements around the world with a focus on these being appropriate for the local market and culture.

The BTPS, BTRSS and EEPS are not controlled by the Board. The BTPS and EEPS are managed by separate and independent Trustee bodies while savings in the BTRSS are managed directly by members.

Details of the governance of the BTPS, its financial position and the performance of its investments are available in the BTPS Annual Report published by the Trustee in December 2016, on the BTPS Trustee website (www.btpensions.net).

We've given more information on our pension arrangements and on the funding and accounting valuations in note 19 to the consolidated financial statements.

BTPS funding valuation and future funding obligations

The funding of the BTPS is subject to legal agreement between BT and the Trustee of the BTPS and is determined at the conclusion of each triennial valuation. The most recent triennial funding valuation at 30 June 2014 and the associated deficit contribution plan was agreed with the Trustee in January 2015. At 30 June 2014, the market value of assets was £40.2bn and the funding deficit was £7.0bn. There are a wide range of assumptions that could be adopted for measuring pension liabilities. Legislation requires that this deficit is based on a prudent view – for example, assuming a lower future investment return than might be expected in practice.

A 16-year deficit contribution plan was agreed reflecting BT's long-term and sustainable cash flow generation. Under this plan, we made deficit payments of £875m in March 2015, £625m in April 2015 and £250m in March 2016 and March 2017.

Accounting position under IAS 19

The accounting deficit, net of tax, rose over the year from £5.2bn to £7.6bn.

The actual investment return in the year to 31 March 2017 of around 21% was higher than the discount rate assumption at 31 March 2016 of 3.30%, leading to a reduction in the deficit recognised as a remeasurement in other comprehensive income. The return reflects strong asset performance across all asset classes, in particular equities and government bonds which increased by c16% and c23% respectively.

The actuarial losses on liabilities in 2016/17 primarily reflect a fall over the year in the real discount rate from 0.44% to (0.78%).

Contractual obligations and commitments

We've shown in the table below our principal contractual financial obligations and commitments at 31 March 2017. You can see further details on these items in notes 19, 23 and 29 to the consolidated financial statements.

At 31 March 2017	Total £m	Less than 1 year £m	Between 1 and 3 years £m	Between 3 and 5 years £m	More than 5 years £m
Loans and other borrowings[a]	**13,517**	2,777[b]	2,756	1,281	6,703
Finance lease obligations	**229**	14	24	26	165
Operating lease obligations	**7,160**	650	1,168	1,037	4,305
Capital commitments	**889**	811	77	–	1
Other commitments	**367**	231	127	9	–
Device purchase commitments	**423**	423	–	–	–
Programme rights commitments	**2,644**	–	641	1,405	598
Pension deficit obligations	**7,686**	710	1,460	1,410	4,106
Total	**32,915**	**5,616**	**6,253**	**5,168**	**15,878**

[a] Excludes fair value adjustments.
[b] Includes £189m accured interest due within less than one year.

We have unused committed borrowing facilities totalling £3.6bn. We expect that these resources and our future cash generation will allow us to settle our obligations as they fall due.

Adoption of IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' will be effective for BT on 1 April 2018. We are planning to adopt this new standard retrospectively, applying it to each prior reporting period presented in our 2018/19 financial statements, namely 2016/17 and 2017/18. On adoption in 2018/19, this will require a cumulative transitional adjustment at 1 April 2016. We are still in the process of quantifying the implications of this standard and the financial impact is not yet reasonably estimable, but we anticipate that the resulting accelerated revenues and deferred costs are likely to significantly exceed deferred revenues, and there will be a resulting cash tax impact in 2018/19 and 2019/20.

More detail over our approach to this new standard as well as others is outlined in note 1 to the consolidated financial statements.

REPORT OF THE DIRECTORS STATUTORY INFORMATION

Introduction
The directors submit their report and the audited financial statements of the company, British Telecommunications plc, and the group, which includes its subsidiary undertakings, for the 2016/17 financial year.

The audited consolidated financial statements are presented on pages 109 to 180.

Dividend
During the year a final dividend of £2,350m was declared and paid for the year ended 31 March 2016 (2015/16: £1,450m for the year ended 31 March 2015) to the parent company, BT Group Investments Limited. The company did not declare a final dividend for 2016/17.

Principal activity
The company is the principal trading subsidiary of BT Group plc, which is the ultimate parent company.

BT is one of the world's leading communications services companies, serving the needs of customers in the UK and across the world, where we provide fixed-line services, broadband, mobile and TV products and services as well as networked IT services.

In the UK we are a leading communications services provider, selling products and services to consumers, small and medium sized enterprises and the public sector.

We also sell wholesale products and services to communications providers in the UK and around the world. Globally, we supply managed networked IT services to multinational corporations, domestic businesses and national and local government organizations.

Directors
The directors, who served throughout 2016/17 and continued to be directors as at the date of this report, were Glyn Parry and Sean Williams. Tony Chanmugam served as a director until 31 July 2016.

Directors' and officers' liability insurance and indemnity
BT Group plc purchases insurance to cover the directors, officers and employees in positions of managerial supervision of BT Group plc and its subsidiaries. This is intended to protect against defence costs, civil damages and, in some circumstances, civil fines and penalties following an action brought against them in their personal capacity. The policy also covers individuals serving as directors of other companies or joint ventures or on boards of trade associations or charitable organisation's at BT's request. The insurance protects the directors and officers directly in circumstances where, by law, BT cannot provide an indemnity. It also provides BT, subject to a retention, with cover against the cost of indemnifying a director or officer. One layer of insurance is ring-fenced for the directors of BT Group plc.

As at 17, May 2017, and throughout 2016/17, British Telecommunications plc has provided an indemnity in respect of a similar group of people who would be covered by the above insurance. Neither the insurance nor the indemnity provides cover where the person has acted fraudulently or dishonestly.

Financial statements

A statement by the directors of their responsibilities for preparing the financial statements is included in the **Statement of directors' responsibilities** on page 105.

Our critical accounting estimates and key judgements, and significant accounting policies are set out on pages 120 to 129 of the consolidated financial statements and conform with IFRS. These policies and applicable estimation techniques have been reviewed by the directors who have confirmed them to be appropriate for the preparation of the 2016/17 consolidated financial statements.

So far as each of the directors is aware, there is no relevant information that has not been disclosed to the auditors and each of the directors believes that all steps have been taken that ought to have been taken to make them aware of any relevant audit information and to establish that the auditors have been made aware of that information.

Capital management and funding policy
The capital structure of the company and US subsidiary undertakings is managed by BT Group plc.

The objective of BT Group plc's capital management and policy is to reduce the group's net debt[a] while investing in the business, supporting the pension fund and paying progressive dividends.

The BT Group plc Board reviews the group's capital structure regularly. Management proposes actions which reflect the group's investment plans and risk characteristics as well as the macro-economic conditions in which we operate.

BT Group plc's funding policy is to raise and invest funds centrally to meet the group's anticipated requirements. We use a combination of capital market bond issuance, commercial paper borrowing and committed borrowing facilities. When issuing debt, group treasury will take into consideration the maturity profile of the group's debt portfolio as well as forecast cash flows to avoid refinancing risk.

Details of our treasury policy are included in note 25 to the consolidated financial statements.

Financial instruments
Details of the group's financial risk management objectives and policies of the group and exposure to interest risk, credit risk, liquidity risk and foreign exchange are given in note 25 to the consolidated financial statements.

Credit risk management policy
We take proactive steps to minimise the impact of adverse market conditions on our financial instruments. In managing investments and derivative financial instruments, the group's central treasury function monitors the credit quality across treasury counterparties and actively manages any exposures which arise. Management within the lines of business also actively monitors any exposures arising from trading balances.

Off-balance sheet arrangements
Other than the financial commitments and contingent liabilities disclosed in note 29 to the consolidated financial statements, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on: our financial condition; changes in financial condition; revenues or expenses; results of operations; liquidity; capital expenditure; or capital resources.

Legal proceedings
The group is involved in various legal proceedings, including actual or threatened litigation, government or regulatory investigations. For further details of legal and regulatory proceedings to which the group is party please see note 29 to the consolidated financial statements on pages 178 to 180.

Save as disclosed below and in note 29 to the consolidated financial statements, the group does not currently believe that there are any legal proceedings, government or regulatory investigations that may have a material adverse impact on the operations or financial condition of the group. In respect of each of the claims described in note 29 the nature and progression of such proceedings and investigations can make it difficult to predict the impact they will have on the group. There are many reasons why we cannot make these assessments with certainty, including, among others, that they are in early stages, no damages or remedies have been specified, and/or the often slow pace of litigation.

Italian business
In January 2017, our parent company made a further announcement with respect to the investigation into our Italian business. The issues in Italy have resulted in engagement with certain of our regulators and other authorities in the UK and elsewhere. As would be expected, we are cooperating fully with these bodies including the Italian authorities.

Going concern
The **Strategic Report** on pages 4 to 98 includes information on the group structure, the performance of each of the lines of business, the impact of regulation and competition and principal risks and uncertainties. The **Group performance** section on pages 88 to 98 includes information on our group financial results, cash flow, loans and borrowings and balance sheet position. Notes 21, 22, 23 and 25 of the consolidated financial statements include information on the group's investments, cash and cash equivalents, loans and borrowings, derivatives, financial risk management objectives, hedging policies and exposure to interest, foreign exchange, credit, liquidity and market risks.

[a] Net debt is a measure of BT Group plc's consolidated net indebtedness that provides an indicator of the overall balance sheet strength of the group. Net debt consists of loans and other borrowings (both current and non-current), less current asset investments and cash and cash equivalents. At 31 March 2017 BT Group plc's net debt was £8,932m (2015/16: £9,838m).

Alongside the factors noted above, the directors have considered the group's cash flow forecasts, in particular with reference to the period to the end of May 2018. The directors are satisfied that these cash flow forecasts, taking into account reasonably possible risk sensitivities associated with these forecasts and BT Group plc's current funding and facilities, alongside BT Group plc's funding strategy, show that the group will continue to operate for the foreseeable future. The directors therefore continue to have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future and continue to adopt a going concern basis (in accordance with the guidance 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' issued by the Financial Reporting Council) in preparing the consolidated financial statements.

Audit tender

PricewaterhouseCoopers ("PwC") and its predecessor firms have been BT's auditors since BT listed on the London Stock Exchange in 1984 and their reappointment has not been subject to a tender in that time. The BT Group plc Audit & Risk Committee consider annually the timetable for audit tendering. In their annual review, they recommended to the BT Group plc Board that the audit tender process commence with a view to appointing new auditors for the financial year 2018/19. The audit tender process, including the company, is expected to be completed by BT Group plc's Annual General Meeting in July 2017, such that there can be an effective transition by the selected audit firm during the 2017/18 audit process.

The company confirms that it complied with the provisions of the Competition and Markets Authority's Order for the financial year under review.

UK internal control and risk management

The Board of BT Group plc is responsible for the group's systems of internal control and risk management and for reviewing the effectiveness of those systems each year. These systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives; any system can provide only reasonable, and not absolute, assurance against material misstatement or loss.

For details of our internal controls, as affected by the issues identified in our Italian business, see 103.

BT has enterprise-wide risk management processes for identifying, evaluating and managing the principal risks faced by the group. These processes have been in place throughout the year and have continued up to the date on which this document was approved. The processes are in accordance with the FRC Guidance on risk management, internal control and related financial and business reporting.

Risk assessment and evaluation take place as an integral part of BT Group plc's annual strategic planning cycle. There is a detailed risk management process which identifies the key risks facing the group, each line of business and TSO.

The key features of our enterprise-wide risk management and internal control process (covering financial, operational and compliance controls) are:

- senior executives collectively review the group's key risks and have created a Group Risk Register describing the risks, owners and mitigation strategies. BT Group plc's Group Risk Panel and Operating Committee review this before it is reviewed and approved by the BT Group plc Board;
- the lines of business and TSO carry out risk assessments of their operations, create risk registers relating to those operations and ensure that the key risks are addressed;
- senior executives with responsibility for major group operations report quarterly their opinion on the effectiveness of the operation of internal controls in their areas of responsibility;
- the internal auditors carry out continuing assessments of the quality of risk management and control, report to management and the BT Group plc Audit & Risk Committee on the status of specific areas identified for improvement and promote effective risk management in the lines of business and TSO;
- the BT Group plc Audit & Risk Committee, on behalf of the of BT Group plc Board, considers the effectiveness of the group's internal control procedures during the financial year. It reviews reports from the internal and external auditors and reports its conclusions to the of BT Group plc Board. The BT Group plc Audit & Risk Committee has carried out these actions for 2016/17; and
- the BT Group plc Audit & Risk Committee, on behalf of the BT Group plc Board, reviews the effectiveness of risk management arrangements across the group. In support of this, an annual review meeting is held with the group chief executive and the CEOs of each line of business.

We have not dealt with joint ventures and associates, which BT does not control, as part of the group risk management process. They are responsible for their own internal control assessment.

Our significant accounting policies are set out on pages 121 to 129. The consistent application of those policies is subject to ongoing verification through management review and independent review by internal and external auditors.

The processes supporting the preparation and consolidation of the financial statements have been documented and are subject to annual verification through the programme of testing done by our internal auditors. This serves to confirm the operation of the internal controls over financial reporting and compliance with the Sarbanes-Oxley Act.

US SARBANES-OXLEY ACT OF 2002

The company has debt securities registered with the US Securities and Exchange Commission (SEC). As a result, we must comply with those provisions of the Sarbanes-Oxley Act applicable to foreign issuers. We comply with the legal and regulatory requirements introduced under the Sarbanes-Oxley Act, in so far as they apply.

Controls and Procedures

Background

Our assessment of our controls and procedures for this year has been affected by the issues that have been identified in our Italian business.

In October 2016 we reported that following an initial investigation we had identified improper accounting practices in our Italian business and had appointed KPMG, with support and oversight from our Legal, Governance and Compliance function and Freshfields Bruckhaus Deringer, reporting directly to both the chair of the *Audit & Risk Committee* and BT Group chairman, to perform an independent investigation, alongside our own detailed balance sheet review and continuing investigation.

In January 2017 we reported that the investigations had revealed that the extent and complexity of the improper practices were greater than previously identified and that these had resulted in an overstatement of profits over a number of years. We concluded that the errors were not individually material to any of the group's previously issued financial statements, but that the correction of £268m in the current year would materially misstate the current year. Therefore in our financial statements for and as of 31 March 2017, we have revised our prior year income statements, balance sheets and cash flow statements.

As part of the investigation, we also commissioned KPMG, with support and oversight from our Legal, Governance and Compliance function and Freshfields Bruckhaus Deringer, reporting directly to both the chair of the BT Group plc *Audit & Risk Committee* and BT Group chairman, to conduct a detailed independent review to determine how the collusion and override of controls within our Italian business remained undetected, while management conducted its own review. These controls, investigations and reviews are now completed.

Management had implemented a series of remedial and compensating actions after the issues were first identified in October 2016 and, informed by the results of their own review and the recently completed KPMG investigation, has since implemented, and plans to implement, further such actions. These actions include suspending the key members of the senior management team in Italy (who have now left the business) and appointing a new senior management team in Italy, strengthening the monitoring controls and escalation mechanisms in our finance shared services centres, transferring Italy customer billing activities to group billing services and performing detailed substantive reviews of the balance sheet of our Italian business and other large country operations outside the UK.

As a result of the implementation of these remedial and compensating actions, management has made all necessary adjustments in our consolidated financial statements. Management has concluded that our consolidated financial statements for the year ended, and as of, 31 March 2017 fairly present, in all material respects, our financial condition and results of operations. Management also concluded that the impact of all facts known to management to date are reflected in the consolidated financial statements.

Disclosure controls and procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934 (Exchange Act), and the rules and regulations thereunder, is recorded, processed, summarised and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated to management, including the BT Group plc chief executive and group finance director to allow for timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognises that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgement and makes assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

We have evaluated the effectiveness of our disclosure controls and procedures. Based upon that evaluation, the principal executive officer and the principal financial officer concluded that as a result of the material weakness described below, as of 31 March 2017, our disclosure controls and procedures were not effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or furnish under the Exchange Act is recorded, processed, summarised and reported, within the time periods specified in the applicable rules and forms.

Management's Report on Internal Control over Financial Reporting
Management is responsible for establishing and maintaining adequate internal control over financial reporting for the group. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with IFRS as issued by the IASB and IFRS as adopted by the EU.

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

Management conducted an assessment of the effectiveness of our internal control over financial reporting as of 31 March 2017 based on the criteria established in "Internal Control – Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Following this assessment, management has concluded that our internal control over financial reporting was not effective as of 31 March 2017 due to the material weakness described below.

Material Weakness in Internal Control over Financial Reporting
A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our consolidated financial statements will not be prevented or detected on a timely basis.

Our Italian business is managed by a local management team within the Global Services line of business. Individuals in Italy colluded to override the period end financial close controls and overstate the results, and the monitoring controls which include the review of reconciliations, journals, results and financial position, did not operate effectively to identify the overstatement in a timely manner.

The group did not maintain effective controls to prevent or detect the collusive circumvention or override of controls related to our Italian business. Specifically management has identified the following internal control deficiencies related to our Italian business and the failure to detect the circumvention or override of controls that together constitute a material weakness in the control environment (i) failure in the review of reconciliations (ii) failure in the review of journals and (iii) failure in our monitoring controls over the results and financial position of our Italian business.

This material weakness could result in a misstatement of the account balances and disclosures relating to our Italian business that would represent material misstatements in our annual consolidated financial statements that would not be prevented or detected.

Audit of the Effectiveness of Internal Control over Financial Reporting
Our independent registered public accounting firm, PricewaterhouseCoopers LLP, has audited the effectiveness of our internal control over financial reporting, as stated in their report as of 31 March 2017, which is included herein.

Remediation
Since October 2016, and later informed by the results of the recently completed KPMG investigation and management's own review, management has been actively engaged in the design and implementation of remediation efforts that are intended to address the identified material weakness. The design and implementation of these and other remedial efforts are the responsibility of management.

The actions are intended to strengthen our internal control, governance and compliance environment and remediate the material weakness described above. These include the following:

1. We suspended a number of BT Italy's senior management team (who have now left the business). The president of our European operations has also left the business. We have appointed a new president of our European operations and a new CEO and CFO of BT Italy from outside the Italian executive management team.

2. We strengthened our monitoring controls and escalation mechanisms as they relate to our Italian business, including in relation to the reviews of reconciliations and journals.
3. We transferred the Italy customer billing activities to our group billing services function.

We also are in the process of evaluating additional actions to remediate the material weakness and strengthen our internal control, governance and compliance environment, including increasing the resources and improving the capabilities of the controlling function and the audit function outside the UK, and further developing our integrated risk and assurance reporting processes. We are also enhancing our controls and compliance programme to reinforce the importance of doing business in an ethical, disciplined and standardised way.

Notwithstanding the identified material weakness, management has concluded that our consolidated financial statements for the year ended, and as of 31 March 2017 fairly present, in all material respects, our financial condition and results of operations. Management has also concluded that the impact of all facts known to management to date are reflected in the consolidated financial statements.

Changes in Internal Control Over Financial Reporting
Changes in our internal control over financial reporting that occurred during 2016/17, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting are described in points 2 and 3 above under "Remediation."

CROSS REFERENCE TO THE STRATEGIC REPORT

As permitted by the Companies Act, we have chosen to include in the **Strategic Report** the following information (required by law to be included in the **Report of the Directors**):

- an indication of likely future developments in the business of the company (see the **Strategic Report** on pages 4 to 98);
- an indication of our research and development activities (page 21);
- information about our people (page 15); and
- information about greenhouse gas emissions (page 33).

By order of the Board

Heather Brierley
Secretary
17 May 2017
Registered Office: 81 Newgate Street, London EC1A 7AJ
Registered in England and Wales No. 1800000

DIRECTORS' INFORMATION

Statement of directors' responsibilities
The directors are responsible for preparing the **Annual Report** and the **financial statements** in line with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. They've also prepared parent company financial statements in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101), and applicable law. In preparing the consolidated financial statements, the directors have also elected to comply with IFRS, issued by the International Accounting Standards Board (IASB). Under company law, the directors must not approve the financial statements unless they're satisfied that it gives a true and fair view of the group and the company and of the profit or loss of the group and the company for that period.

To prepare these financial statements, the directors:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRS, as adopted by the European Union, and IFRS issued by the IASB and applicable UK GAAP including FRS 101 have been followed, subject to any material departures disclosed and explained in the consolidated and parent company financial statements respectively;
- notify the parent company's shareholders in writing about the use of any disclosure exemptions of FRS 101 used in the preparation of financial statements; and
- prepare financial statements on a 'going concern' basis unless it's inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation. They're also responsible for safeguarding the assets of the company and the group and for taking reasonable steps to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed on page 99 confirms that, to the best of their knowledge:

- the company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the company;
- the consolidated financial statements, which have been prepared in accordance with IFRS, and Article 4 of the IAS Regulation and International Accounting Standards, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the group; and
- the Strategic Report on pages 4 to 98 includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties it faces.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BRITISH TELECOMMUNICATIONS PLC

Report on the group financial statements

Our opinion

In our opinion, British Telecommunications plc's group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 31 March 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the financial statements, the group, in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion, the financial statements comply with IFRSs as issued by the IASB.

What we have audited

The financial statements, included within the Annual Report & Form 20-F 2017 (the "Annual Report"), comprise:

- the group balance sheet as at 31 March 2017;
- the group income statement and group statement of comprehensive income for the year then ended;
- the group cash flow statement for the year then ended;
- the group statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 105, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and the Report of the Directors, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the parent company financial statements of British Telecommunications plc for the year ended 31 March 2017.

Richard Hughes (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
17 May 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of British Telecommunications plc (the 'company'):

In our opinion, the accompanying group balance sheets and the related group income statements, group statements of comprehensive income, group statements of changes in equity and group cash flow statements present fairly, in all material respects, the financial position of British Telecommunications plc and its subsidiaries at 31 March 2017 and 31 March 2016, and the results of their operations and their cash flows for each of the three years in the period ended 31 March 2017 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and International Financial Reporting Standards as adopted by the European Union. Also in our opinion, the company did not maintain, in all material respects, effective internal control over financial reporting as of 31 March 2017, based on criteria established in *Internal Control – Integrated Framework 2013* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because a material weakness in internal control related to the Group's failure to maintain effective controls to prevent or detect the collusive circumvention or override of controls related to the Group's Italian business existed as of that date.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in Management's Report on Internal Control over Financial Reporting on page 103 of the Report of the Directors, General Information of the British Telecommunications plc Annual Report & Form 20-F 2017. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the 31 March 2017 group financial statements, and our opinion regarding the effectiveness of the company's internal control over financial reporting does not affect our opinion on those group financial statements. The company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in management's report referred to above. Our responsibility is to express opinions on these financial statements and on the company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

As set out in note 1, the group has adopted the IFRS Interpretations Committee agenda decision on IAS 32 para 42(a) with effect from 1 April 2016.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
London, United Kingdom
17 May 2017

CONSOLIDATED FINANCIAL STATEMENTS
GROUP INCOME STATEMENT

Year ended 31 March 2017	Notes	Before specific items £m	Specific items[a] £m	Total £m
Revenue	4	**24,082**	**(20)**	**24,062**
Operating costs	5	(19,944)	(948)	(20,892)
Operating profit (loss)	4	**4,138**	**(968)**	**3,170**
Finance expense	24	(632)	(210)	(842)
Finance income	24	232	–	232
Net finance expense		**(400)**	**(210)**	**(610)**
Share of post tax loss of associates and joint ventures		(9)	–	(9)
Profit (loss) before taxation		**3,729**	**(1,178)**	**2,551**
Taxation	9	(702)	217	(485)
Profit (loss) for the year		**3,027**	**(961)**	**2,066**

Year ended 31 March 2016	Notes	Before specific items Revised[b] £m	Specific items[a] £m	Total Revised[b] £m
Revenue	4	**18,879**	**133**	**19,012**
Operating costs	5	(15,052)	(345)	(15,397)
Operating profit (loss)	4	**3,827**	**(212)**	**3,615**
Finance expense	24	(540)	(229)	(769)
Finance income	24	389	–	389
Net finance expense		**(151)**	**(229)**	**(380)**
Share of post tax profit of associates and joint ventures		6	–	6
Profit (loss) before taxation		**3,682**	**(441)**	**3,241**
Taxation	9	(674)	166	(508)
Profit (loss) for the year		**3,008**	**(275)**	**2,733**

Year ended 31 March 2015	Notes	Before specific items Revised[b] £m	Specific items[a] £m	Total Revised[b] £m
Revenue	4	**17,840**	**128**	**17,968**
Operating costs	5	(14,179)	(381)	(14,560)
Operating profit (loss)	4	**3,661**	**(253)**	**3,408**
Finance expense	24	(579)	(299)	(878)
Finance income	24	235	–	235
Net finance expense		**(344)**	**(299)**	**(643)**
Share of post tax loss of associates and joint ventures		(1)	–	(1)
Profit on disposal of interest in associates and joint ventures	8	–	25	25
Profit (loss) before taxation		**3,316**	**(527)**	**2,789**
Taxation	9	(678)	121	(557)
Profit (loss) for the year		**2,638**	**(406)**	**2,232**

a For a definition of specific items, see page 225. An analysis of specific items is provided in note 8.
b See note 1.

GROUP STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March	Notes	2017 £m	2016 Revised[a] £m	2015 Revised[a] £m
Profit for the year		**2,066**	**2,733**	**2,232**
Other comprehensive (loss) income				
Items that will not be reclassified to the income statement				
Actuarial (losses) gains relating to retirement benefit obligations	19	(2,789)	755	(1,051)
Tax on actuarial gains (losses)	9	416	(240)	208
Items that have been or may be reclassified subsequently to the income statement				
Exchange differences on translation of foreign operations	26	237	29	16
Fair value movements on available-for-sale assets	26	(3)	(2)	7
Fair value movements on cash flow hedges:				
- net fair value gains	26	884	381	207
- recognised in income and expense	26	(938)	(230)	(218)
Tax on components of other comprehensive income that have been or may be reclassified	9,26	29	5	37
Other comprehensive (loss) income for the year, net of tax		**(2,164)**	**698**	**(794)**
Total comprehensive (loss) income for the year		**(98)**	**3,431**	**1,438**

a Revised, see note 1.

GROUP BALANCE SHEET

At 31 March	Notes	2017 £m	2016 Revised[a] £m	2015 Revised[a] £m
Non-current assets				
Intangible assets	11	15,037	15,458	3,178
Property, plant and equipment	12	16,498	15,971	13,498
Derivative financial instruments	25	1,818	1,462	1,232
Investments	21	11,606	11,965	19,614
Associates and joint ventures		31	24	26
Trade and other receivables	16	360	218	179
Deferred tax assets	9	1,717	1,247	1,559
		47,067	**46,345**	**39,286**
Current assets				
Programme rights	14	264	225	118
Inventories	15	227	189	94
Trade and other receivables	16	3,860	3,987	3,094
Current tax receivable		73	65	65
Derivative financial instruments	25	428	177	97
Investments	21	1,740	3,271	3,571
Cash and cash equivalents	22	526	989	843
		7,118	**8,903**	**7,882**
Current liabilities				
Loans and other borrowings	23	2,791	3,756	2,316
Derivative financial instruments	25	34	48	168
Trade and other payables	17	7,476	7,463	5,369
Current tax liabilities		197	271	222
Provisions	18	625	178	142
		11,123	11,716	8,217
Total assets less current liabilities		**43,062**	**43,532**	**38,951**
Non-current liabilities				
Loans and other borrowings	23	11,105	12,029	8,864
Derivative financial instruments	25	869	863	927
Retirement benefit obligations	19	9,088	6,382	7,583
Other payables	17	1,298	1,106	930
Deferred tax liabilities	9	1,240	1,262	948
Provisions	18	536	565	422
		24,136	**22,207**	**19,674**
Equity				
Ordinary shares		2,172	2,172	2,172
Share premium		8,000	8,000	8,000
Other reserves	26	1,591	1,392	1,209
Retained earnings		7,163	9,761	7,896
Total equity		**18,926**	**21,325**	**19,277**
		43,062	**43,532**	**38,951**

a Revised, see note 1 .

The consolidated financial statements on pages 109 to 180 and 206 to 224 were approved by the Board of Directors on 17 May 2017 and were signed on its behalf by

Glyn Parry
Director

GROUP STATEMENT OF CHANGES IN EQUITY

	Note	Share capital[a] £m	Share premium[b] £m	Other reserves[c] £m	Retained earnings £m	Total equity £m
At 1 April 2014 – previously reported		**2,172**	**8,000**	**1,156**	**7,655**	**18,983**
Revisions[d]		–	–	4	(64)	(60)
At 1 April 2014 – revised		**2,172**	**8,000**	**1,160**	**7,591**	**18,923**
Profit for the year[d]		–	–	–	2,232	2,232
Other comprehensive income (loss) – before tax[d]		–	–	230	(1,051)	(821)
Tax on other comprehensive income	9	–	–	37	208	245
Transferred to the income statement		–	–	(218)	–	(218)
Total comprehensive income for the year[d]		–	–	49	1,389	1,438
Share-based payments	20	–	–	–	70	70
Tax on share-based payments	9	–	–	–	54	54
Dividends to parent company	10	–	–	–	(1,200)	(1,200)
Other movements		–	–	–	(8)	(8)
At 1 April 2015[d]		**2,172**	**8,000**	**1,209**	**7,896**	**19,277**
Profit for the year[d]		–	–	–	2,733	2,733
Other comprehensive income (loss) – before tax[d]		–	–	408	755	1,163
Tax on other comprehensive income (loss)	9	–	–	5	(240)	(235)
Transferred to the income statement		–	–	(230)	–	(230)
Total comprehensive income		–	–	183	3,248	3,431
Share-based payments	20	–	–	–	58	58
Tax on share-based payments	9	–	–	–	12	12
Dividends to parent company	10	–	–	–	(1,450)	(1,450)
Other movements		–	–	–	(3)	(3)
At 1 April 2016[d]		**2,172**	**8,000**	**1,392**	**9,761**	**21,325**
Profit for the year		–	–	–	2,066	2,066
Other comprehensive income (loss) – before tax		–	–	1,108	(2,779)	(1,671)
Tax on other comprehensive income	9	–	–	29	416	445
Transferred to the income statement		–	–	(938)	–	(938)
Total comprehensive income (loss)		–	–	199	(297)	(98)
Share-based payments	20	–	–	–	57	57
Tax on share-based payments	9	–	–	–	(6)	(6)
Dividends to parent company	10	–	–	–	(2,350)	(2,350)
Other movements		–	–	–	(2)	(2)
At 31 March 2017		**2,172**	**8,000**	**1,591**	**7,163**	**18,926**

a The allotted, called up and fully paid ordinary share capital of the company at 31 March 2017 and 31 March 2016 was £2,172m comprising 8,689,755,905 ordinary shares of 25p each.
b The share premium account, representing the premium on allotment of shares, is not available for distribution.
c For further analysis of other reserves, see note 26.
d Revised, see note 1.

GROUP CASH FLOW STATEMENT

Year ended 31 March	Note	2017 £m	2016 Revised[a] £m	2015 Revised[a] £m
Cash flow from operating activities				
Profit before taxation		2,551	3,241	2,789
Profit on disposal of interest in associates and joint ventures		–	–	(25)
Share of post tax loss (profit) of associates and joint ventures		9	(6)	1
Net finance expense		610	380	643
Operating profit		3,170	3,615	3,408
Other non-cash items		20	39	(20)
(Profit) loss on disposal of businesses		(16)	–	1
Depreciation and amortisation		3,572	2,631	2,538
Increase in inventories		(33)	–	(13)
Increase in programme rights		(95)	(44)	(40)
Decrease (increase) in trade and other receivables		168	(83)	(263)
(Decrease) increase in trade and other payables		(150)	123	194
Decrease in other liabilities[b]		(307)	(810)	(727)
Increase (decrease) in provisions		401	(63)	19
Cash generated from operations		**6,730**	**5,408**	**5,097**
Income taxes paid		(551)	(256)	(309)
Net cash inflow from operating activities		**6,179**	**5,152**	**4,788**
Cash flow from investing activities				
Interest received		7	10	10
Dividends received from associates and joint ventures		2	17	–
Acquisition of subsidiaries[c]		18	93	(6)
Proceeds on disposal of subsidiaries[c], associates and joint ventures		46	–	26
Acquisition of joint ventures		(13)	(8)	(10)
Outflow on non-current amounts owed by ultimate parent company[d]		(1,571)	(4,767)	(1,046)
Proceeds on disposal of current financial assets[e]		10,834	8,918	8,124
Purchases of current financial assets[e]		(9,411)	(8,252)	(9,898)
Proceeds on disposal of non-current asset investments		–	–	8
Purchases of non-current asset investments		(22)	–	–
Proceeds on disposal of property, plant and equipment		26	7	100
Purchases of property, plant and equipment and software		(3,145)	(2,438)	(2,410)
Net cash outflow from investing activities		**(3,229)**	**(6,420)**	**(5,102)**
Cash flow from financing activities				
Interest paid		(629)	(558)	(590)
Repayment of borrowings[f]		(1,805)	(1,283)	(1,166)
Net repayment of commercial paper		–	–	(338)
Proceeds from loan from ultimate parent company		–	–	1,003
Proceeds from bank loans and bonds		3	3,023	812
Cash flows from derivatives related to loans and other borrowings		119	79	297
Drawdown on acquisition facility		–	3,200	–
Repayment of acquisition facility		(181)	(3,019)	–
Repayment of EE revolving credit facility		(438)	(100)	–
Net cash (outflow) inflow from financing activities		**(2,931)**	**1,342**	**18**
Net increase (decrease) in cash and cash equivalents		**19**	**74**	**(296)**
Opening cash and cash equivalents[g]		452	402	679
Net increase (decrease) in cash and cash equivalents		19	74	(296)
Effect of exchange rate changes		38	(24)	19
Closing cash and cash equivalents[g]	22	**509**	**452**	**402**

a Revised, see note 1.
b Includes pension deficit payments of £274m (2015/16: £880m, 2014/15: £876m).
c Acquisitions and disposals of subsidiaries are shown net of cash acquired or disposed of and includes £20m true-up of consideration following the audit of the completion balance sheet relating to the acquisition of EE.
d In addition, there are non-cash movements in this intra-group loan arrangement which principally relate to the acquisition of EE, settlement of dividends with the parent company and amounts the ultimate parent company was owed by the parent company which were settled through their loan accounts with British Telecommunications plc. For further details see notes 10 and 28.
e Primarily consists of investment in and redemption of amounts held in liquidity funds.
f Repayment of borrowings includes the impact of hedging and repayment of lease liabilities.
g Net of bank overdrafts of £17m (2015/16: £537m, 2014/15: £441m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

Preparation of the financial statements

These consolidated financial statements have been prepared in accordance with the Companies Act 2006, Article 4 of the IAS Regulation and International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and related interpretations, as adopted by the European Union. The consolidated financial statements are also in compliance with IFRS as issued by the International Accounting Standards Board (IASB). The consolidated financial statements are prepared on a going concern basis.

The consolidated financial statements are prepared on the historical cost basis, except for certain financial and equity instruments that have been measured at fair value. The consolidated financial statements are presented in Sterling, the functional currency of British Telecommunications plc, the parent company.

New and amended accounting standards effective during the year

During the year we revised the presentation of cash pooling arrangements under IAS 32, refer to the prior year revision and reclassifications below. There are no other new or amended standards of interpretations adopted during the year that have a significant impact on the financial statements.

New and amended accounting standards that have been issued but are not yet effective

The following standards have been issued and are effective for accounting periods ending on or after 1 April 2017 and are expected to have an impact on the group financial statements.

IFRS 15 'Revenue from Contracts with Customers'

Background

In May 2014, IFRS 15 'Revenue from Contracts with Customers' was issued. It was subsequently amended in September 2015 and April 2016. It will be effective for periods beginning on or after 1 January 2018. Transition to IFRS 15 for the group will take place on 1 April 2018. Results in the 2018/19 financial year will comply with IFRS 15, with the first Annual Report and Form 20-F published in accordance with IFRS 15 being that for the year ended 31 March 2019.

IFRS 15 sets out the requirements for recognising revenue and costs from contracts with customers and includes extensive disclosure requirements. The standard requires entities to apportion revenue earned from contracts to individual promises, or performance obligations, on a relative stand-alone selling price basis, based on a five-step model.

Transition

BT is planning to adopt IFRS 15 retrospectively and apply the new standard to each prior reporting period presented, ie 2016/17 and 2017/18, in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. In the year of adoption, the group will record a cumulative transitional adjustment at 1 April 2016 to revise historical financial data. All customer contracts in progress but not completed or starting after this date will need to be revised.

Our decision to adopt retrospectively depends on a number of factors considering the time, effort and cost involved in doing so when compared to the benefits to users of the financial statements.

The group intends to use the following practical expedients on transition, because in the view of the group, the costs of providing the information significantly outweigh any benefits:

(a) completed contracts that begin and end within the same annual reporting period will not be revised;

(b) for completed contracts that have variable consideration, the transaction price at the date the contract was completed will be used rather than estimating variable consideration amounts in the comparative reporting periods; and

(c) for all reporting periods presented before the date of initial application, BT will not disclose the amount of the transaction price allocated to the remaining performance obligations or identify when it expects to recognise that amount as revenue.

IFRS 15 Project

The group has determined its planned revenue and cost accounting policies under IFRS 15. Following the acquisition of EE in January 2016, the group has extended its future IFRS 15 accounting policies to cover EE.

1. Basis of preparation continued

The group has deployed a cross-functional project team dedicated to the implementation of IFRS 15. This team has been engaged in determining accounting policies under the new standard, quantifying the transitional adjustments and selecting and implementing suitable systems solutions. The team is also reviewing the impact on tax, intra group trading, forecasting, the bid and tender process and HR and remuneration plans. There will be a significant impact on the group's billing data and accounting platforms. An IT-based solution is in development for certain areas and lines of business. New processes and controls are being designed in addition to complement this solution.

Performance obligations
IFRS 15 requires that at contract inception, we assess the goods or services promised in a contract with a customer and identify as a performance obligation each promise to transfer to the customer. Promises in a contract can be explicit, or implicit if the promises create a valid expectation to provide a good or service based on the customary business practices, published policies, or specific statements.

IFRS 15 will require disclosures relating to the group's performance obligations.

We continue to review our disclosure of revenue by products and services in the segment disclosure note in the light of the requirements of IFRS 15.

The stand-alone selling prices of the group's products and services are being determined. These may be regulated prices, list prices, a cost-plus derived price, the price of similar products when sold on a stand-alone basis by BT or a competitor or in some cases the contract price where the price contracted represents a bespoke price that would be the same for a similar customer in a similar circumstance.

Financial Impact
The group is in the process of quantifying the implications of the standard and the financial impact is not yet reasonably estimable. Based on our analysis to date we expect the acceleration of revenues (notably handset revenues) and deferral of costs (notably third party contract acquisition costs associated with handset revenues) will significantly exceed deferred connection revenues on the adoption date. This will:

- pull forward profits in the periods being restated;
- lead to the recognition of a contract asset; and increase equity reserves at 1 April 2016.

This will give rise to a one-off additional cash tax charge payable split between 2018/19 and 2019/20.

An update on the financial impact of each business area is as follows:

- Under our current accounting policy, mobile handset revenue is recognised based on the amount the customer pays for the handset when it is delivered to the customer. Generally mobile handsets are either provided for free or for a small up front charge.
  Under IFRS 15, additional revenue will be allocated to the mobile handset at the start of the contract. This is calculated with reference to its relative standalone value within the contract, regardless of the contract pricing. For each mobile handset contract the revenue recognition profile will change with greater day one recognition of revenue for the handset and a corresponding reduction in ongoing mobile service revenue over the contract period. The difference between the mobile handset revenue recognised and the amounts charged to the customer will be recognised as a contract asset.
  On adoption of IFRS 15, this change will pull forward profits in the periods being restated, and we will recognise a contract asset for all open contracts at 1 April 2016.
  Over time, the contract asset generated is expected to remain at similar levels as old contracts expire and new ones are signed.
  However we will see short term volatility, for example around key handset launches.
  This will be the most significant impact of the IFRS 15 adoption on the group and will primarily impact EE. To a lesser extent this will also impact mobile handset revenues in Business and Public Sector, in respect of the legacy EE business division, and Consumer. The impact in these lines of businesses is less significant due to the lower handset base.
  We expect to see a similar trend in respect of subsidised equipment although we expect this to have a less significant impact due to the lower relative standalone value for this equipment.
- Currently, sales commissions and other third party acquisition costs resulting directly from securing contracts with customers are expensed when incurred.
  Under IFRS 15 sales commissions and other third party contract acquisition costs will be recognised as an asset, and amortised over the period in which the corresponding benefit is received, resulting in earlier profit recognition.
  The impact is greatest in EE in respect of third party acquisition costs associated with handset revenues.

1. Basis of preparation continued

- Currently, the group recognises connections revenue upon performance of the connection activity. Under IFRS 15 connections revenue will be deferred and recognised on a straight-line basis over the associated line/circuit contractual period. This will mean that revenue and profits will be recognised later and on transition leads to the recognition of a contract liability as revenue and profits are deferred to future periods.
  Wholesale and Ventures and Openreach deliver the majority of this service and therefore will experience the majority of the impact.
  Over time, this liability is expected to remain at similar levels as old contracts expire and new ones are signed.
  On the adoption date we expect the impact of this deferral to be significantly less than the impact of handset revenue and third party acquisition costs for handsets noted above.
- We recognised a customer relationship intangible asset during our acquisition of EE. This represents our expectation of future revenue from customers existing on acquisition. Upon adoption of IFRS 15, we would need to identify how much of the customer relationship intangible asset needs to be reclassified as contract assets. This is to avoid double counting. The reduction in customer relationship intangible asset will result in a lower amortisation charge.
- Recognised contract assets will be subject to impairment under IFRS 9 as set out below.
- There will be a corresponding effect on tax in relation to the above impacts. The group anticipates a higher tax charge in 2018/19 and 2019/20 as a result of our expectation that accelerated revenues and deferred costs are likely to significantly exceed deferred revenues, thus increasing taxable profit in the periods being restated.

IFRS 15 will impact other areas but we do not expect them to be material. These include certain contract fulfilment costs which will be recognised as an asset and amortised over the period in which benefit is received and certain expenses will be recognised as a deduction from revenue.

IFRS 15 also provides more detailed guidance on how to account for contract modifications than the current revenue standards IAS 18 and IAS 11. Changes must be accounted for either as a retrospective change (creating either a catch up or deferral of previously recorded revenues), prospectively with a reallocation of revenues amongst identified performance obligations, or prospectively as separate contracts which will not require any reallocation. We expect contract modifications would primarily relate to changes in the agreed products and services to be provided to customers for long-term IT and networking solution contracts.

IFRS 9 'Financial instruments'

IFRS 9 will be effective for BT from 1 April 2018. It is applicable to financial assets and financial liabilities and covers the classification, measurement, impairment and de-recognition of financial assets and liabilities together with a new hedge accounting model.

With the exception of the impact on IFRS 15 contract assets we do not expect the standard to have a material impact on our results, with the key issues for BT being around documentation of policies, hedging strategy and new hedge documentation.

Providing for loss allowances on our existing financial assets is not expected to have a material impact. However, we have not yet quantified the impact on contract assets which will be recognised under IFRS 15. This is being considered as part of the wider IFRS 15 project.

IFRS 16 'Leases'

IFRS 16 was published in January 2016 and will be effective for BT from 1 April 2019, replacing IAS 17 'leases'. We do not expect to early-adopt the standard and so transition to IFRS 16 will take place on 1 April 2019. Results in the 2019/20 financial year will be IFRS 16 compliant, with the first Annual Report and 20-F published in accordance with IFRS 16 being the 31 March 2020 report.

The standard requires lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset is of low value.

The group is still in the process of quantifying the implications of this standard. However, we expect the following indicative impacts:

- There is expected to be an increase in total assets, as leased assets which are currently accounted for off balance sheet (ie classified as operating leases under IAS 17) will be recognised on balance sheet. The biggest asset category impacted for the group is expected to be land and buildings.
- There is expected to be an increase in debt, as liabilities relating to existing operating leases are recognised. This is still under review. The increase in total debt will have an impact on gearing ratios.

1. **Basis of preparation** continued

- Operating lease expenditure will be reclassified and split between depreciation and finance costs. Therefore EBITDA will increase. Future depreciation and finance costs for our historic leases are also affected by our choice of transition method, which is still under review.
- There may be a corresponding effect on tax balances in relation to all of the above impacts.

Presentation of specific items
Our income statement and segmental analysis separately identify trading results before specific items. The directors believe that presentation of our results in this way is relevant to an understanding of our financial performance, as specific items are identified by virtue of their size, nature or incidence. This presentation is consistent with the way that financial performance is measured by management and reported to the Board and the group and assists in providing a meaningful analysis of our trading results. In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence.

Furthermore, we consider a columnar presentation to be appropriate, as it improves the clarity of the presentation and is consistent with the way that financial performance is measured by management and reported to the Board and the group.

Specific items may not be comparable to similarly titled measures used by other companies. Examples of charges or credits meeting the above definition and which have been presented as specific items in the current and/or prior years include acquisitions/disposals of businesses and investments, regulatory settlements, historical insurance or litigation claims, business restructuring programmes, asset impairment charges, property rationalisation programmes, net interest on pensions and the settlement of multiple tax years. In the event that other items meet the criteria, which are applied consistently from year to year, they are also treated as specific items.

Specific items for the current and prior years are disclosed in note 8.

Prior year revision and re-classifications Investigation into our Italian business
During the year our investigations into our Italian business have revealed inappropriate behaviour and improper accounting practices. The improper practices included a complex set of improper sales, purchase, factoring and leasing transactions.

The effect of the prior years' errors on the income statement, balance sheet and cash flow statements for the prior periods is set out in the **Summary** on pages 118 to 120. In total we identified prior period errors that amounted to a £268m reduction in total equity in our 31 March 2016 balance sheet.

The prior years' errors have resulted from profits, and therefore equity, being overstated for a number of years. These errors affected the Consolidated Group Balance Sheets and Consolidated Group Income Statements included in the Annual Report and Form 20-F for a number of years including the years ended 31 March 2016 and 31 March 2015, and in each of the quarterly results announcements of those years. We have concluded that errors were not material to these or any other of the group's previously issued financial statements.

We have also assessed whether the correction of the cumulative effect of these errors in the current year would be material to the current year and concluded that correcting these in the current year would be material. Therefore we consider it appropriate to correct the errors by revising the prior years to avoid mis-stating the current year.

We also made changes in estimates resulting from the reassessment of the financial position and outlook for the Italian business amounting to £245m. This is presented within specific items in the year given its size and one-off nature. See note 8.

Revised presentation of cash pooling arrangements
An IFRIC clarification on IAS 32 'Financial Instruments presentation Offsetting and cash pooling arrangements' was released in April 2016. This confirmed a requirement to gross up cash and overdraft balances associated with notional cash pooling arrangements when there is no intention to settle the period end balance.

As a result we revised the comparative balance sheet at 31 March 2016. The impact is to increase cash and cash equivalents and short-term loans and other borrowings by £499m at 31 March 2016 and £414m at 31 March 2015.

1. Basis of preparation continued

EE purchase price accounting

IFRS 3 'Business Combinations' allows us to recognise provisional fair values if the initial accounting for the business combination is incomplete. In the period ended 31 March 2016, we reported that the fair values recognised for our 29 January 2016 acquisition of EE were provisional. The fair values were to be finalised over a period not exceeding one year from the acquisition date. During the year, we've finalised our assessment within the measurement period. This resulted in a correction to previously recognised brand, customer relationships and prepaid assets. Our reassessment also resulted in a recognition of new receivables and unfavourable contract provisions. We also received a £20m refund from the previous owners of EE following the finalisation of the audit of the completion balance sheet. The net impact of the adjustments including the deferred tax effect resulted in an increase in goodwill of £29m as of 31 March 2016 with no material impact on the income statement. See note 13.

Revision of segment results

From 1 April 2016, the group has been reorganised and the reporting segments have changed. The group has six customer-facing lines of business:

- BT Consumer remains a separate segment, renamed Consumer;
- EE's consumer division is a separate segment;
- BT Business has become Business and Public Sector and includes the UK corporate and public sector operations from BT Global Services as well as EE's business division;
- BT Global Services has been renamed Global Services and is focused on multinational customers;
- BT Wholesale has become Wholesale and Ventures and includes EE's MVNO operations and certain specialist businesses that were previously in the BT Business segment; and
- Openreach, remains unchanged.

In addition, EE's technology team is now the mobile technology unit of our internal service unit, Technology, Service and Operations.

The comparative results for all six customer facing lines of business in the segment information note have been revised to be presented on a consistent basis. See note 4.

Summary of adjustments

The following tables reconcile the 31 March 2016 and 31 March 2015 financial years from previously published to the revised position reflecting the three prior year revisions. All subsequent comparative information has been revised accordingly.

Group income statement

For the year ended 31 March 2016	As published[a] £m	Italian business adjustment £m	Revised £m
Revenue	19,042	(30)	19,012
Operating costs	(15,305)	(92)	(15,397)
Operating profit	3,737	(122)	3,615
Profit before tax	3,363	(122)	3,241
Profit for the period	2,855	(122)	2,733

For the year ended 31 March 2015	As published[a] £m	Italian business adjustment £m	Revised £m
Revenue	17,979	(11)	17,968
Operating costs	(14,493)	(67)	(14,560)
Operating profit	3,486	(78)	3,408
Profit before tax	2,867	(78)	2,789
Profit for the period	2,310	(78)	2,232

a After specific items, which are defined on page 225.

1. **Basis of preparation** continued

Group balance sheet

As at 31 March 2016	As published £m	Italian business adjustment £m	Cash pooling adjustment £m	EE purchase price accounting finalisation adjustment £m	Revised £m
Non-current assets					
Intangible assets	15,444	–	–	14	15,458
Property, plant and equipment	16,010	(39)	–	–	15,971
Trade and other receivables	233	(15)	–	–	218
Other non-current assets	14,698	–	–	–	14,698
	46,385	**(54)**	**–**	**14**	**46,345**
Current assets					
Trade and other receivables	4,072	(91)	–	6	3,987
Cash and cash equivalents	490	–	499	–	989
Other current assets	3,927	–	–	–	3,927
	8,489	**(91)**	**499**	**6**	**8,903**
Current liabilities					
Loans and other borrowings	3,257	–	499	–	3,756
Trade and other payables	7,334	129	–	–	7,463
Other current borrowings	490	–	–	7	497
	11,081	**129**	**499**	**7**	**11,716**
Total assets less current liabilities	**43,793**	**(274)**	**–**	**13**	**43,532**
Non-current liabilities					
Loans and other borrowings	12,036	(7)	–	–	12,029
Retirement benefit obligations	6,382	–	–	–	6,382
Other non-current liabilities	3,782	1	–	13	3,796
	22,200	**(6)**	**–**	**13**	**22,207**
Equity					
Ordinary shares	2,172	–	–	–	2,172
Share premium	8,000	–	–	–	8,000
Other reserves	1,397	(5)	–	–	1,392
Retained earnings	10,024	(263)	–	–	9,761
Total equity	**21,593**	**(268)**	**–**	**–**	**21,325**
	43,793	**(274)**	**–**	**13**	**43,532**

1. Basis of preparation continued

Group balance sheet

As at 31 March 2015	As published £m	Italian business adjustment £m	Cash pooling adjustment £m	Revised £m
Non-current assets				
Intangible assets	3,178	–	–	3,178
Property, plant and equipment	13,505	(7)	–	13,498
Trade and other receivables	184	(5)	–	179
Other non-current assets	22,431	–	–	22,431
	39,298	**(12)**	**–**	**39,286**
Current assets				
Trade and other receivables	3,141	(47)	–	3,094
Cash and cash equivalents	429	–	414	843
Other current assets	3,945	–	–	3,945
	7,515	**(47)**	**414**	**7,882**
Current liabilities				
Loans and other borrowings	1,902	–	414	2,316
Trade and other payables	5,297	72	–	5,369
Other current borrowings	532	–	–	532
	7,731	**72**	**414**	**8,217**
Total assets less current liabilities	**39,082**	**(131)**	**–**	**38,951**
Non-current liabilities				
Loans and other borrowings	8,870	(6)	–	8,864
Retirement benefit obligations	7,583	–	–	7,583
Other non-current liabilities	3,225	2	–	3,227
	19,678	**(4)**	**–**	**19,674**
Equity				
Ordinary shares	2,172	–	–	2,172
Share premium	8,000	–	–	8,000
Other reserves	1,194	15	–	1,209
Retained earnings	8,038	(142)	–	7,896
Total equity	**19,404**	**(127)**	**–**	**19,277**
	39,082	**(131)**	**–**	**38,951**

Group cash flow statement

			2016			**2015**
For the year ended 31 March	As published £m	Italian business adjustment £m	Revised £m	As published £m	Italian business adjustment £m	Revised £m
Net cash flow from operating activities	5,180	(28)	5,152	4,796	(8)	4,788
Net cash flow from investing activities	(6,448)	28	(6,420)	(5,110)	8	(5,102)
Net cash flow from financing activities	1,342	–	1,342	18	–	18
Net increase in cash and cash equivalents	74	–	74	(296)	–	(296)
Opening cash and cash equivalents	402	–	402	679	–	679
Effect of exchange rate changes	(24)	–	(24)	19	–	19
Closing cash and cash equivalents	452	–	452	402	–	402

2. Critical accounting estimates and key judgements

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying our accounting policies. We continually evaluate our estimates, assumptions and judgements based on available information and experience. As

2. Critical accounting estimates and key judgements continued

the use of estimates is inherent in financial reporting, actual results could differ from these estimates. Management has discussed its critical accounting estimates and associated disclosures with the Audit and Risk Committee. The areas involving a higher degree of judgement or complexity are described in the applicable notes to the financial statements.

We have the following critical accounting estimates and key judgements:

- Revenue from multiple element arrangements, see note 4
- Subscriber acquisition and retention costs, see note 5
- Current and deferred income tax, see note 9
- Goodwill, see note 11
- Useful lives for property, plant and equipment and software, see note 12
- Government grants relating to Broadband Delivery UK (BDUK) contracts, see note 12
- Business combinations, see note 13
- Long-term customer contracts, see note 16
- Providing for doubtful debts, see note 16
- Provisions and contingent liabilities, see note 18
- Pension obligations, see note 19

3. Significant accounting policies

The significant accounting policies applied in the preparation of our consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of consolidation

The group financial statements consolidate the financial statements of BT plc and its subsidiaries, and include its share of the results of associates and joint ventures using the equity method of accounting. The group recognises its direct rights to (and its share of) jointly held assets, liabilities, revenues and expenses of joint operations under the appropriate headings in the consolidated financial statements.

A subsidiary is an entity that is controlled by another entity, known as the parent or investor. An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Non-controlling interests in the net assets of consolidated subsidiaries, which consist of the amounts of those interests at the date of the original business combination and non-controlling share of changes in equity since the date of the combination, are not material to the group's financial statements.

The results of subsidiaries acquired or disposed of during the year are consolidated from and up to the date of change of control. Where necessary, accounting policies of subsidiaries have been aligned with the policies adopted by the group. All intra-group transactions including any gains or losses, balances, income or expenses are eliminated in full on consolidation.

When the group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The profit or loss on disposal is recognised as a specific item.

Revenue

Revenue represents the fair value of the consideration received or receivable for communications services and equipment sales, net of discounts and sales taxes. Revenue is recognised when it is probable that the economic benefits associated with a transaction will flow to the group and the amount of revenue and associated costs can be measured reliably. The accounting for revenue sharing arrangements depends on the analysis of the facts and circumstances surrounding these transactions.

Where we act as an agent in a transaction, we recognise revenue net of directly attributable costs.

Services

Revenue arising from separable installation and connection services is recognised when it is earned, upon activation. Revenue from the rental of analogue and digital lines and private circuits is recognised on a straight line basis over the

3. **Significant accounting policies** continued

period to which it relates. Revenue from calls is recognised at the time the call is made over our network. Subscription fees, consisting primarily of monthly charges for access to broadband and other internet access or voice services, are recognised as revenue as the service is provided. Revenue from the interconnection of voice and data traffic between other telecommunications operators is recognised at the time of transit across our network.

Revenues from telephone service and internet access subscription fees as well as those from wholesale access revenues are recognised on a straight line basis over the period to which they relate. Revenue from calls is recognised at the time the call is made over the group's network. Revenue from the interconnection of voice and data traffic between other telecommunications operators is recognised at the time of transit across the group's network.

Equipment sales
Revenue from the sale of equipment is recognised when all the significant risks and rewards of ownership are transferred to the customer, which is normally the date the equipment is delivered and accepted by the customer.

Long-term contractual arrangements
Revenue from long-term contractual arrangements, including fixed price contracts to design and build software solutions, is recognised based on the percentage of completion method. The stage of completion is estimated using an appropriate measure according to the nature of the contract such as the proportion of costs incurred relative to the estimated total contract costs, or other measures of completion such as the achievement of contract milestones and customer acceptance. In the case of time and materials contracts, revenue is recognised as the service is rendered.

Costs related to delivering services under long-term contractual arrangements are expensed as incurred except for an element of costs incurred in the initial contract set-up, transition or transformation phase, which is deferred and recorded within non-current assets. These costs are then recognised in the income statement on a straight line basis over the remaining contract term, unless the pattern of service delivery indicates a different profile is more appropriate. These costs are directly attributable to specific contracts, relate to future activity, will generate future economic benefits and are assessed for recoverability on a regular basis.

The percentage of completion method relies on estimates of total expected contract revenues and costs, as well as reliable measurement of the progress made towards completion. Unless the financial outcome of a contract can be estimated with reasonable certainty, no attributable profit is recognised. In such circumstances, revenue is recognised equal to the costs incurred to date, to the extent that such revenue is expected to be recoverable, or costs are accrued to bring the margin to nil. Recognised revenue and profits are subject to revisions during the contract if the assumptions regarding the overall contract outcome are changed. The cumulative impact of a revision in estimates is recorded in the period in which such revisions become likely and can be estimated. Where the actual and estimated costs to completion exceed the estimated revenue for a contract, the full contract life loss is recognised immediately.

Multiple element arrangements and bundles
Revenue from multiple element arrangements and bundles is described in note 4.

Operating and reportable segments
Our operating segments are reported based on financial information provided to BT Group plc Operating Committee, as detailed on page 3, which is the key management committee and represents the 'chief operating decision maker'.

Our organisational structure reflects the different customer groups to which we provide communications products and services via our customer-facing lines of business: Consumer, EE, Business and Public Sector, Global Services, Wholesale and Ventures and Openreach. The customer-facing lines of business are supported by an internal service unit: Technology, Service & Operations (TSO).

The customer-facing lines of business are our reportable segments and generate substantially all of our revenue. We aggregate the remaining operations and include within the 'Other' category to reconcile to the consolidated results of the group. The 'Other' category includes TSO and our centralised functions including procurement and property management.

Provisions for the settlement of significant legal, commercial and regulatory disputes, which are negotiated at a group level, are initially recorded in the 'Other' segment. On resolution of the dispute, the full impact is recognised in the results of the relevant line of business and offset in the group results through the utilisation of the provision previously charged to the 'Other' segment. Settlements which are particularly significant or cover more than one financial year may fall within the definition of specific items as detailed on page 225.

3. **Significant accounting policies** continued

The costs incurred by TSO are recharged to the customer-facing lines of business to reflect the services it provides to them. Depreciation and amortisation incurred by TSO in relation to the networks and systems it manages and operates on behalf of the customer-facing lines of business is allocated to the lines of business based on their respective utilisation. Capital expenditure incurred by TSO for specific projects undertaken on behalf of the customer-facing lines of business is allocated based on the value of the directly attributable expenditure incurred. Where projects are not directly attributable to a particular line of business, capital expenditure is allocated between them based on the proportion of estimated future economic benefits. TSO and the group's centralised functions are not reportable segments as they did not meet the quantitative thresholds as set out in IFRS 8 'Operating Segments' for any of the years presented.

Performance of each reportable segment is measured based on adjusted EBITDA, defined as EBITDA before specific items, as included in the internal financial reports reviewed by BT. EBITDA is defined as the operating profit or loss before depreciation, amortisation, net finance expense and taxation. Adjusted EBITDA is considered to be a useful measure of the operating performance of the lines of business because it approximates the underlying operating cash flow by eliminating depreciation and amortisation and also provides a meaningful analysis of trading performance by excluding specific items, which are disclosed separately by virtue of their size, nature or incidence. Specific items are detailed in note 8 and are not allocated to the reportable segments as this reflects how they are reported to BT. Finance expense and income are not allocated to the reportable segments, as the central treasury function manages this activity, together with the overall net debt position of the group.

The comparative results for all six customer facing lines of business have been revised to reflect the 1 April 2016 reorganisation of the reporting segments, see note 1.

Retirement benefits
The group's net obligation in respect of defined benefit pension plans is the present value of the defined benefit obligation less the fair value of the plan assets.

The calculation of the obligation is performed by a qualified actuary using the projected unit credit method and key actuarial assumptions at the balance sheet date.

The income statement expense is allocated between an operating charge and net finance income or expense. The operating charge reflects the increase in the defined benefit obligation resulting from the pension benefit earned by active employees in the current period, the costs of administering the plans and any past service costs/credits such as those arising from curtailments or settlements. The net finance income or expense reflects the interest on the net retirement benefit obligations recognised in the group balance sheet, based on the discount rate at the start of the year. Actuarial gains and losses are recognised in full in the period in which they occur and are presented in the group statement of comprehensive income.

The group also operates defined contribution pension plans and the income statement expense represents the contributions payable for the year.

Property, plant and equipment
Property, plant and equipment are included at historical cost, net of accumulated depreciation, government grants and any impairment charges. Property, plant and equipment acquired through business combinations are initially recorded at fair value and subsequently accounted for on the same basis as the group's existing assets. An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset. The difference between the sale proceeds and the net book value at the date of disposal is recognised in operating costs in the income statement.

Included within the cost of network infrastructure and equipment are direct and indirect labour costs, materials and directly attributable overheads.

Depreciation is provided on property, plant and equipment on a straight line basis from the time the asset is available for use, to write off the asset's cost over the estimated useful life taking into account any expected residual value. Freehold land is not depreciated.

3. **Significant accounting policies** continued

The estimated useful lives assigned to principal categories of assets are as follows:

Land and buildings	
– Freehold buildings	14 to 50 years
– Short-term leasehold improvements	Shorter of 10 years or lease term
– Leasehold land and buildings	Unexpired portion of lease or 40 years, whichever is the shorter
Network infrastructure	
Transmission equipment	
– Duct	40 years
– Cable	3 to 25 years
– Fibre	5 to 20 years
Exchange equipment	2 to 13 years
Other network equipment	2 to 20 years
Other assets	
– Motor vehicles	2 to 9 years
– Computers and office equipment	3 to 7 years

Assets held under finance leases are depreciated over the shorter of the lease term or their useful economic life. Residual values and useful lives are reassessed annually and, if necessary, changes are recognised prospectively.

Network share assets
Certain assets have been contributed to a network share arrangement by both EE and Hutchison 3G UK limited, with legal title remaining with the contributor. This is considered to be a reciprocal arrangement. The group's share of the assets on acquisition of EE was recognised at fair value within tangible assets, and depreciated in line with the group's policy. Subsequent additions are recorded at cost. For further information see note 12.

Intangible assets
Identifiable intangible assets are recognised when the group controls the asset, it is probable that future economic benefits attributable to the asset will flow to the group and the cost of the asset can be reliably measured. All intangible assets, other than goodwill, are amortised over their useful economic life. The method of amortisation reflects the pattern in which the assets are expected to be consumed. If the pattern cannot be determined reliably, the straight line method is used.

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the identifiable net assets (including intangible assets) of the acquired business.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Cash Generating Units (CGUs) that is expected to benefit from the business combination. Each CGU to which goodwill is allocated represents the lowest level within the group at which the goodwill is monitored for internal management purposes.

Acquired intangible assets – customer relationships and brands
Intangible assets such as customer relationships or brands acquired through business combinations are recorded at fair value at the date of acquisition and subsequently carried at amortised cost. Assumptions are used in estimating the fair values of these relationships or brands and include management's estimates of revenue and profits to be generated by them.

Telecommunications licences
Licence fees paid to governments, which permit telecommunications activities to be operated for defined periods, are initially recorded at cost and amortised from the time the network is available for use to the end of the licence period or where our usage can extend beyond the licence period, over the period we expect to benefit from the use of the licences, which is typically 20 years.

Licences acquired through business combinations are recorded at fair value at the date of acquisition and subsequently carried at amortised cost. The fair value is based on management's assumption of future cash flows using market expectations at acquisition date.

3. **Significant accounting policies** continued

Computer software
Computer software comprises computer software licences purchased from third parties, and also the cost of internally developed software. Computer software licences purchased from third parties are initially recorded at cost.

Costs directly associated with the production of internally developed software, including direct and indirect labour costs of development, are capitalised only where it is probable that the software will generate future economic benefits, the cost of the asset can be reliably measured and technical feasibility can be demonstrated, in which case it is capitalised as an intangible asset on the balance sheet. Costs which do not meet these criteria and research costs are expensed as incurred.

The group's development costs which give rise to internally developed software include upgrading the network architecture or functionality and developing service platforms aimed at offering new services to the group's customers. See research and development on page 21.

Other
Other intangible assets include website development costs and other licences. Items are capitalised at cost and amortised on a straight line basis over their useful economic life or the term of the contract.

Estimated useful economic lives
The estimated useful economic lives assigned to the principal categories of intangible assets are as follows:

– Computer software	2 to 10 years
– Telecommunications licences	2 to 20 years
– Customer relationships and brands	1 to 15 years

Programme rights
Programme rights are recognised on the balance sheet from the point at which the legally enforceable licence period begins. Rights for which the licence period has not started are disclosed as contractual commitments in note 29. Payments made to receive commissioned or acquired programming in advance of the legal right to broadcast the programmes are classified as prepayments.

Programme rights are initially recognised at cost and are amortised from the point at which they are available for use, on a straight line basis over the programming period, or the remaining licence term, as appropriate, this is generally 12 months. The amortisation charge is recorded within operating costs in the income statement.

Programmes produced internally are recognised within current assets at production cost, which includes labour costs and an appropriate portion of relevant overheads, and charged to the income statement over the period of the related broadcast.

Programme rights are tested for impairment in accordance with the group's policy for impairment of non-financial assets set out on page 126. Related cash outflows are classified as operating cash flows in the cash flow statement.

Inventories
Network maintenance equipment and equipment to be sold to customers are stated at the lower of cost or net realisable value, taking into account expected revenues from the sale of packages comprising a mobile handset and a subscription. Cost corresponds to purchase or production cost determined by either the first in first out (FIFO) cost or average cost method.

Provisions
Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Financial liabilities within provisions are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. Onerous lease provisions are measured at the lower of the cost to fulfil or to exit the contract.

Current and deferred income tax
Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the group's subsidiaries, associates and joint ventures operate and generate taxable income. The

3. Significant accounting policies continued

group periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and the group establishes provisions where appropriate on the basis of the amounts expected to be paid to tax authorities.

Deferred tax is recognised, using the liability method, in respect of temporary differences between the carrying amount of the group's assets and liabilities and their tax base. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future against which the deductible temporary difference can be utilised.

Deferred tax is determined using tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Impairment of non-financial assets

Intangible assets with finite useful lives and property, plant and equipment are tested for impairment if events or changes in circumstances (assessed at each reporting date) indicate that the carrying amount may not be recoverable. When an impairment test is performed, the recoverable amount is assessed by reference to the higher of the net present value of the expected future cash flows (value in use) of the relevant cash generating unit and the fair value less costs to dispose.

Goodwill is reviewed for impairment at least annually. Impairment losses are recognised in the income statement, as a specific item. If a cash generating unit is impaired, impairment losses are allocated firstly against goodwill, and secondly on a pro-rata basis against intangible and other assets.

Government grants

Government grants are recognised when there is reasonable assurance that the conditions associated with the grants have been complied with and the grants will be received.

Grants for the purchase or production of property, plant and equipment are deducted from the cost of the related assets and reduce future depreciation expense accordingly. Grants for the reimbursement of operating expenditure are deducted from the related category of costs in the income statement. Government grants received relating to the BDUK programme and other rural superfast broadband contracts are accounted for as described under 'Critical accounting estimates and key judgements'.

Once a government grant is recognised, any related contingent liability or contingent asset is treated in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

Foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of transactions and the translation of monetary assets and liabilities denominated in foreign currencies at period end exchange rates are recognised in the income statement line which most appropriately reflects the nature of the item or transaction.

On consolidation, assets and liabilities of foreign undertakings are translated into Sterling at year end exchange rates. The results of foreign undertakings are translated into Sterling at average rates of exchange for the year (unless this average is not a reasonable approximation of the cumulative effects of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions). Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity, the translation reserve.

In the event of the disposal of an undertaking with assets and liabilities denominated in a foreign currency, the cumulative translation difference associated with the undertaking in the translation reserve is charged or credited to the gain or loss on disposal recognised in the income statement.

Research and development

Research expenditure is recognised in the income statement in the period in which it is incurred. Development expenditure, including the cost of internally developed software, is recognised in the income statement in the period in

3. **Significant accounting policies** continued

which it is incurred unless it is probable that economic benefits will flow to the group from the asset being developed, the cost of the asset can be reliably measured and technical feasibility can be demonstrated, in which case it is capitalised as an intangible asset on the balance sheet. Capitalisation ceases when the asset being developed is ready for use. Research and development costs include direct and indirect labour, materials and directly attributable overheads.

Leases
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys the right to use the asset.

Leases of property, plant and equipment where the group holds substantially all the risks and rewards of ownership are classified as finance leases. Finance lease assets are capitalised at the commencement of the lease term at the lower of the present value of the minimum lease payments or the fair value of the leased asset. The obligations relating to finance leases, net of finance charges in respect of future periods, are recognised as liabilities. Leases are subsequently measured at amortised cost using the effective interest method.

Leases where a significant portion of the risks and rewards are held by the lessor are classified as operating leases. Rentals are charged to the income statement on a straight line basis over the period of the lease.

Share-based payments
The group operates a number of equity settled share-based payment arrangements, under which the group receives services from employees in consideration for equity instruments (share options and shares) of the group. Equity settled share-based payments are measured at fair value at the date of grant. Market-based performance criteria and non-vesting conditions (for example, the requirement for employees to make contributions to the share purchase programme) are reflected in this measurement of fair value. The fair value determined at the grant date is recognised as an expense on a straight line basis over the vesting period, based on the group's estimate of the options or shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. Fair value is measured using either the Binomial options pricing model or Monte Carlo simulations, whichever is more appropriate to the share-based payment arrangement.

Service and performance conditions are vesting conditions. Any other conditions are non-vesting conditions which have to be taken into account to determine the fair value of equity instruments granted. In the case that an award or option does not vest as a result of a failure to meet a non-vesting condition that is within the control of either counterparty, this is accounted for as a cancellation. Cancellations are treated as accelerated vesting and all remaining future charges are immediately recognised in the income statement. As the requirement to save under an employee saveshare arrangement is a non-vesting condition, employee cancellations are treated as an accelerated vesting.

No adjustment is made to total equity for awards that lapse or are forfeited after the vesting date.

Termination benefits
Termination benefits (leaver costs) are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to the affected employees leaving the group.

Financial instruments
Financial liabilities at amortised cost
Trade and other payables
Financial liabilities within trade and other payables are initially recognised at fair value, which is usually the original invoiced amount, and subsequently carried at amortised cost using the effective interest method.

Loans and other borrowings
Loans and other borrowings are initially recognised at the fair value of amounts received net of transaction costs. Loans and other borrowings are subsequently measured at amortised cost using the effective interest method and, if included in a fair value hedge relationship, are re-valued to reflect the fair value movements on the hedged risk associated with the loans and other borrowings. The resulting amortisation of fair value movements, on de-designation of the hedge, is recognised in the income statement.

3. **Significant accounting policies** continued

Available-for-sale investments
Liquid and other investments are classified as available-for-sale investments and are initially recognised at fair value plus direct transaction costs and then re-measured at subsequent reporting dates to fair value, with unrealised gains and losses (except for changes in exchange rates for monetary items, interest, dividends and impairment losses, which are recognised in the income statement) recognised in equity until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is taken to the income statement, in the line that most appropriately reflects the nature of the item or transaction. On disposal or impairment of the investments, any gains and losses that have been deferred in other comprehensive income are re-classified to the income statement. Dividends on equity investments are recognised in the income statement when the group's right to receive payment is established. Equity investments are recorded in non-current assets unless they are expected to be sold within one year.

Loans and receivables
Trade and other receivables
Trade and other receivables are initially recognised at fair value, which is usually the original invoiced amount, and are subsequently carried at amortised cost, using the effective interest method, less provisions made for doubtful receivables. Provisions are made specifically where there is evidence of a risk of non-payment, taking into account ageing, previous losses experienced and general economic conditions.

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to cash and are subject to insignificant risk of changes in value and have an original maturity of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents are as defined above net of outstanding bank overdrafts. Bank overdrafts are included within loans and other borrowings, in current liabilities on the balance sheet.

Financial assets and liabilities at fair value through profit or loss
All of the group's derivative financial instruments are held for trading and classified as fair value through profit or loss.

Derivative financial instruments
The group uses derivative financial instruments mainly to reduce exposure to foreign exchange and interest rate risks. The group's policy is not to use derivatives for trading purposes. However, derivatives that do not qualify for hedge accounting or are specifically not designated as a hedge where natural offset is more appropriate are initially recognised and subsequently measured at fair value through profit and loss. Any direct transaction costs are recognised immediately in the income statement. Gains and losses on remeasurement are recognised in the income statement in the line that most appropriately reflects the nature of the item or transaction to which they relate. Derivative financial instruments are classified as current assets or current liabilities where they have a maturity period within 12 months. Where derivative financial instruments have a maturity period greater than 12 months, they are classified within either non-current assets or non-current liabilities.

Where the fair value of a derivative contract at initial recognition is not supported by observable market data and differs from the transaction price, a day one gain or loss will arise which is not recognised in the income statement. Such gains and losses are deferred and amortised to the income statement based on the remaining contractual term and as observable market data becomes available.

Hedge accounting
Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge. To qualify for hedge accounting, hedge documentation must be prepared at inception and the hedge must be expected to be highly effective both prospectively and retrospectively. The hedge is tested for effectiveness at inception and in subsequent periods in which the hedge remains in operation. Hedge accounting is discontinued when the hedging instrument expires, or is sold, terminated or no longer qualifies for hedge accounting or the group chooses to end the hedge relationship. The group designates certain derivatives as either cash flow hedges or fair value hedges.

Cash flow hedges
When a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity, in the cash flow reserve. For cash flow hedges of recognised assets or liabilities, the

3. Significant accounting policies continued

associated cumulative gain or loss is removed from equity and recognised in the same line of the income statement and in the same period or periods that the hedged transaction affects the income statement. Any ineffectiveness arising on a cash flow hedge of a recognised asset or liability is recognised immediately in the same income statement line as the hedged item. Where ineffectiveness arises on highly probable transactions, it is recognised in the income statement line which most appropriately reflects the nature of the item or transaction.

Fair value hedges
When a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability, or unrecognised firm commitment, the change in fair value of the derivative that is designated as a fair value hedge is recorded in the income statement at each reporting date, together with any changes in fair value of the hedged asset or liability that is attributable to the hedged risk.

4. Segment information

The definition of our operating and reportable segments is provided on page 122.

What has changed in our segment information?
From 1 April 2016, the group has been reorganised and the reporting segments have been changed. This was in addition to the revision disclosed in note 1 for our BT Italian business. The comparative results for 2015/16 and 2014/15 for all six customer facing lines of business have been revised and presented on a consistent basis. The impact on line of business results in 2015/16 was to increase revenue, EBITDA and operating profit in Consumer by £10m, £18m and £17m (2014/15: £8m, £13m and £13m), to reduce revenue, EBITDA and operating profit in EE by £204m, £88m and £58m (2014/15: £nil, £nil and £nil), to increase revenue, EBITDA and operating profit in Business and Public Sector by £1,442m, £338m and £252m (2014/15: £1,402m, £339m and £284m), to reduce revenue, EBITDA and operating profit in Global Services by £1,427m, £569m and £473m (2014/15: £1,532m, £582m and £507m), to increase revenue, EBITDA and operating profit in Wholesale and Ventures by £162m, £213m and £172m (2014/15: £124m, £185m and £164m), to reduce EBITDA and operating profit in Openreach by £5m (2014/15: £3m), to reduce revenue, EBITDA and operating profit in Other by £13m, £28m and £27m (2014/15: £13m, £30m and £29m). Intra group revenues were decreased by £342m in 2015/16 (2014/15: £295m). The impact on total group results is shown in note 1.

We have set out below information regarding the results of each reportable segment.

Segment revenue and profit

Year ended 31 March 2017	Consumer £m	EE £ m	Business and Public Sector £m	Global Services £m	Wholesale and Ventures £m	Openreach £m	Other £m	Total £m
Segment revenue	4,934	5,090	4,758	5,479	2,109	5,098	10	27,478
Internal revenue	(63)	(37)	(122)	–	(138)	(3,036)	–	(3,396)
Revenue from external customers[a]	**4,871**	**5,053**	**4,636**	**5,479**	**1,971**	**2,062**	**10**	**24,082**
EBITDA[b]	**1,012**	**1,156**	**1,528**	**495**	**834**	**2,633**	**(10)**	**7,648**
Depreciation and amortisation	(209)	(780)	(352)	(439)	(306)	(1,369)	(55)	(3,510)
Operating profit (loss)[a]	**803**	**376**	**1,176**	**56**	**528**	**1,264**	**(65)**	**4,138**
Specific items (note 8)								(968)
Operating profit								**3,170**
Net finance expense[c]								(610)
Share of post tax loss of associates and joint ventures								(9)
Profit before tax								**2,551**

a Before specific items.
b EBITDA is stated before specific items and is the group's profitability measure for segments.
c Net finance expense includes specific item expense of £210m (2015/16: £229m, 2014/15: £299m). See note 8.

4. Segment information continued

Year ended 31 March 2016	Consumer £m	EE[d] £m	Business and Public Sector £m	Global Services £m	Wholesale and Ventures £m	Openreach £m	Other £m	Total £m
Segment revenue	4,608	841	4,294	5,074	2,274	5,100	11	22,202
Internal revenue	(65)	(7)	(99)	–	(94)	(3,058)	–	(3,323)
Revenue from external customers[a]	**4,543**	**834**	**4,195**	**5,074**	**2,180**	**2,042**	**11**	**18,879**
EBITDA[b]	**1,055**	**173**	**1,414**	**479**	**755**	**2,659**	**(77)**	**6,458**
Depreciation and amortisation	(207)	(146)	(284)	(422)	(253)	(1,301)	(18)	(2,631)
Operating profit (loss)[a]	**848**	**27**	**1,130**	**57**	**502**	**1,358**	**(95)**	**3,827**
Specific items (note 8)								(212)
Operating profit								**3,615**
Net finance expense[c]								(380)
Share of post tax profit of associates and joint ventures								6
Profit before tax								**3,241**

a Before specific items.
b EBITDA is stated before specific items and is the group's profitability measure for segments.
c Net finance expense includes specific item expense of £210m (2015/16: £229m, 2014/15: £299m). See note 8.
d EE reflects results for the period from acquisition on 29 January to 31 March 2016.

Year ended 31 March 2015	Consumer £m	Business and Public Sector £m	Global Services £m	Wholesale and Ventures £m	Openreach £m	Other £m	Total £m
Segment revenue	4,293	4,247	5,218	2,361	5,011	15	21,145
Internal revenue	(62)	(99)	–	(80)	(3,064)	–	(3,305)
Revenue from external customers[a]	**4,231**	**4,148**	**5,218**	**2,281**	**1,947**	**15**	**17,840**
EBITDA[b]	**1,044**	**1,380**	**465**	**746**	**2,597**	**(33)**	**6,199**
Depreciation and amortisation	(218)	(235)	(444)	(245)	(1,348)	(48)	(2,538)
Operating profit (loss)[a]	**826**	**1,145**	**21**	**501**	**1,249**	**(81)**	**3,661**
Specific items (note 8)							(253)
Operating profit							3,408
Net finance expense[c]							(643)
Share of post tax loss of associates and joint ventures							(1)
Profit on disposal of interest in associates and joint ventures							25
Profit before tax							**2,789**

a Before specific items.
b EBITDA is stated before specific items and is the group's profitability measure for segments.
c Net finance expense includes specific item finance expense of £210m (2015/16: £229m, 2014/15: £299m). See note 8.

What are our internal revenue and costs?

Most of our internal trading relates to Openreach and arises on rentals, and any associated connection or migration charges, of the UK access lines and other network products to the customer-facing lines of business. This occurs both directly, and also indirectly, through TSO which is included within the 'Other' segment. Wholesale and Ventures internal revenue arises from EE for mobile Ethernet access and TSO for transmission planning services. Internal revenue in Business and Public Sector relates primarily to the use of BT Ireland's network by other lines of business. Internal revenue arising in Consumer relates primarily to employee broadband and wi-fi services, while internal revenue in Global Services relates primarily to conferencing services.

Intra-group revenue generated from the sale of regulated products and services is based on market price. Intra-group revenue from the sale of other products and services is agreed between the relevant lines of business and therefore line of business profitability may be impacted by transfer pricing levels.

4. Segment information continued

The tables below show internal revenue and costs recorded by each line of line of business.

Year ended 31 March 2017	Internal cost recorded by Consumer £m	EE £m	Business and Public Sector £m	Global Services £m	Wholesale and Ventures £m	Openreach £m	Other £m	Total £m
Internal revenue recorded by								
Consumer	–	–	21	20	4	–	18	**63**
EE	–	–	–	–	37	–	–	**37**
Business and Public Sector	60	3	–	39	20	–	–	**122**
Global Services	–	–	–	–	–	–	–	**–**
Wholesale and Ventures	–	–	2	23	–	39	74	**138**
Openreach	910	–	236	158	260	–	1,472	**3,036**
Total	**970**	**3**	**259**	**240**	**321**	**39**	**1,564**	**3,396**

Year ended 31 March 2016	Internal cost recorded by Consumer £m	EE[a] £m	Business and Public Sector £m	Global Services £m	Wholesale and Ventures £m	Openreach £m	Other £m	Total £m
Internal revenue recorded by								
Consumer	–	–	20	23	4	–	18	**65**
EE[a]	–	–	–	–	7	–	–	**7**
Business and Public Sector	60	1	–	18	19	1	–	**99**
Global Services	–	–	–	–	–	–	–	**–**
Wholesale and Ventures	–	12	5	22	–	55	–	**94**
Openreach	905	–	262	173	264	–	1,454	**3,058**
Total	**965**	**13**	**287**	**236**	**294**	**56**	**1,472**	**3,323**

a EE reflects results for the period from acquisition on 29 January 2016 to 31 March 2016.

Year ended 31 March 2015	Internal cost recorded by Consumer £m	Business and Public Sector £m	Global Services £m	Wholesale and Ventures £m	Openreach £m	Other £m	Total £m
Internal revenue recorded by							
Consumer	–	20	20	3	–	19	**62**
Business and Public Sector	61	–	18	19	1	–	**99**
Global Services	–	–	–	–	–	–	**–**
Wholesale and Ventures	1	4	28	–	46	1	**80**
Openreach	939	282	187	266	–	1,390	**3,064**
Total	**1,001**	**306**	**253**	**288**	**47**	**1,410**	**3,305**

Revenue by products and services

What critical accounting judgements do we make when we have revenue from multiple element arrangements?
Where a contractual arrangement consists of two or more separate elements that have value to a customer on a standalone basis, revenue is recognised for each element as if it were an individual contract. Total contract consideration is allocated between the separate elements based on their fair value. We apply judgement in both identifying separate elements and allocating consideration between them.

Sales of bundled offers in our mobile businesses frequently include a handset and a telecommunications service contract. There is objective and reliable evidence of fair value for the telecommunications service to be delivered and this represents the revenue recognised in respect of the services delivered. The residual value of the bundled offer therefore represents the revenue in respect of the handset.

4. Segment information continued

For offers that cannot be separated into identifiable elements, revenues are recognised in full over the life of the contract. The main example is connection to a service where this does not represent a separately identifiable transaction from the subscription.

Year ended 31 March	2017 £m	2016 £m	2015 £m
ICT and managed networks	5,927	6,193	6,493
Broadband and TV	4,477	3,535	3,112
Mobile	6,358	1,326	314
Calls, lines and connections	5,069	5,920	5,881
Transit	404	419	555
Other products and services	1,847	1,486	1,485
Revenue[a]	**24,082**	**18,879**	**17,840**

a Before specific items.

Capital expenditure

Year ended 31 March 2017	Consumer £m	EE £m	Business and Public Sector £m	Global Services £m	Wholesale and Ventures £m	Openreach £m	Other £m	Total £m
Intangible assets	92	133	64	126	77	74	55	621
Property, plant and equipment	145	483	211	235	149	1,499	111	2,833
Capital expenditure[a]	**237**	**616**	**275**	**361**	**226**	**1,573**	**166**	**3,454**

Year ended 31 March 2016	Consumer £m	EE[b] £m	Business and Public Sector £m	Global Services £m	Wholesale and Ventures £m	Openreach £m	Other £m	Total £m
Intangible assets	88	29	36	62	70	62	65	412
Property, plant and equipment	119	67	117	293	139	1,385	90	2,210
Capital expenditure[a]	**207**	**96**	**153**	**355**	**209**	**1,447**	**155**	**2,622**

Year ended 31 March 2015	Consumer £m	Business and Public Sector £m	Global Services £m	Wholesale and Ventures £m	Openreach £m	Other £m	Total £m
Intangible assets	85	35	209	84	55	93	561
Property, plant and equipment	122	125	197	210	1,027	75	1,756
Capital expenditure[a]	**207**	**160**	**406**	**294**	**1,082**	**168**	**2,317**

a Net of government grants.
b EE reflects results for the period from acquisition on 29 January to 31 March 2016.

How do we determine our geographic information?

The UK is our country of domicile and we generate the majority of our revenue from external customers in the UK. The geographic analysis of revenue is based on the country of origin in which the customer is invoiced. The geographic analysis of non-current assets, which exclude derivative financial instruments, investments and deferred tax assets, is based on the location of the assets.

Revenue from external customers

Year ended 31 March	2017 £m	2016 £m	2015 £m
UK	19,421	14,814	13,827
Europe, Middle East and Africa, excluding the UK	2,841	2,442	2,383
Americas	1,148	1,011	1,049
Asia Pacific	672	612	581
Revenue[a]	24,082	18,879	17,840

a Before specific items.

4. Segment information continued

Non-current assets

At 31 March	2017 £m	2016[a] £m	2015[a] £m
UK[b]	28,818	28,583	13,985
Europe, Middle East and Africa, excluding the UK	2,535	2,349	2,172
Americas	424	548	555
Asia Pacific	149	191	169
Non-current assets	31,926	31,671	16,881

a We have revised prior year information to be on a consistent basis.
b The increase in non-current assets in the UK from 2015 to 2016 is primarily due to the acquisition of EE.

5. Operating costs

Year ended 31 March	Notes	2017 £m	2016[a] £m	2015 £m
Operating costs by nature				
Staff costs:				
Wages and salaries		**4,128**	3,684	3,569
Social security costs		**477**	398	440
Other pension costs	19	**521**	494	467
Share-based payment expense	20	**57**	58	70
Total staff costs		**5,183**	**4,634**	**4,546**
Own work capitalised		**(813)**	(720)	(691)
Net staff costs		**4,370**	**3,914**	**3,855**
Net indirect labour costs[b]		**399**	304	324
Net labour costs		**4,769**	**4,218**	**4,179**
Payments to telecommunications operators		**2,653**	2,183	2,144
Property and energy costs		**1,202**	1,024	968
Network operating and IT costs		**983**	644	605
TV programme rights charges		**714**	544	330
Other operating costs		**6,298**	4,023	3,639
Other operating income		**(185)**	(215)	(224)
Depreciation of property, plant and equipment				
Owned assets	12	**2,382**	2,000	1,997
Held under finance leases	12	**10**	10	11
Amortisation of intangible assets[c]	11	**1,118**	621	530
Total operating costs before specific items		**19,944**	**15,052**	**14,179**
Specific items	8	**948**	345	381
Total operating costs		**20,892**	**15,397**	**14,560**
Operating costs before specific items include the following:				
Leaver costs[d]		**86**	109	8
Research and development expenditure[e]		**638**	574	580
Operating lease charges		**692**	441	388
Foreign currency gains		**(12)**	(1)	(2)
Government grants		**(5)**	(6)	(7)

[a] Certain cost items have been represented following the acquisition of EE and the reorganisation of the reporting segments as set out in note 1.
[b] Net of capitalised indirect labour costs of £463m (2015/16: £430m, 2014/15: £451m).
[c] Excludes £62m (2015/16: £nil, 2014/15: £nil) of amortisation presented as specific items which relate to a write off of software costs as a result of the integration of EE. Refer to note 8.
[d] Leaver costs are included within wages and salaries and social security costs, except for leaver costs of £37m (2015/16: £nil, 2014/15: £237m) associated with restructuring in prior years and leaver costs associated with the EE Integration costs in 2017. These have been recorded as specific items.
[e] Research and development expenditure reported in the income statement, includes amortisation of £577m (2015/16: £501m, 2014/15: £493m) in respect of internally developed computer software and operating expenses of £61m (2015/16: £73m, 2014/15: £87m). In addition, the group capitalised software development costs of £457m (2015/16: £399m, 2014/15: £421m).

Why is the treatment of our subscriber and retention costs a critical judgement?

Subscriber acquisition and retention costs are recognised as an expense within other operating costs for the period in which they are incurred. If subscriber acquisition and retention costs are paid in advance they are recognised as

5. Operating costs continued

prepayments provided the amounts are able to be measured reliably and are expected to be recoverable. In some cases, contractual clauses with retailers provide for profit-sharing based on the recognised and paid revenue. In these cases we recognise an expense when the revenue is earned from the customer and a corresponding liability to pay that retailer. In some cases we need to exercise judgement in assessing whether we have an upfront obligation based on the contractual terms.

Who are our key management personnel and how are they compensated?

Key management personnel comprise executive and non-executive directors and members of the Operating Committee of BT Group plc as well as the directors of the company. It is the BT Group plc Operating Committee which has responsibility for planning, directing and controlling the activities of the group.

Compensation of key management personnel is shown in the table below:

Year ended 31 March	**2017 £m**	2016 £m	2015 £m
Short-term employee benefits	10.9	10.3	10.5
Post employment benefits	1.4	1.2	1.2
Share-based payments	5.8	5.9	6.1
Termination benefits	–	0.6	0.5
	18.1	**18.0**	**18.3**

Information concerning directors' remuneration, pension entitlements and long-term incentive plans is shown in note 27.

6. Employees

	2017		2016		2015	
Number of employees in the group[a]	**Year end 000**	**Average 000**	Year end 000	Average 000	Year end 000	Average 000
UK	82.8	82.2	81.4	71.8	70.9	72.2
Non-UK	23.6	22.8	21.1	19.2	17.6	16.5
Total employees	**106.4**	**105.0**	**102.5**	**91.0**	**88.5**	**88.7**

	2017		2016[b]		2015[b]	
Number of employees in the group[a]	**Year end 000**	**Average 000**	Year end 000	Average 000	Year end 000	Average 000
Consumer	8.7	7.7	6.7	6.3	6.2	6.0
EE	9.2	9.1	9.0	1.3	–	–
Business and Public Sector	10.3	10.2	10.3	9.3	9.2	9.9
Global Services	17.5	17.4	16.8	16.5	16.3	17.2
Wholesale and Ventures	3.8	3.7	3.7	3.8	3.9	4.2
Openreach	30.2	30.9	31.5	32.1	32.7	32.4
Other	26.7	26.0	24.5	21.7	20.2	19.0
Total employees	**106.4**	**105.0**	**102.5**	**91.0**	**88.5**	**88.7**

a These reflect the full-time equivalent of full and part-time employees.
b Prior year numbers have been revised to reflect the reorganisation of our reporting segments as set out in note 1.

7. Audit, audit related and other non-audit services

The following fees were paid or are payable to the company's auditors, PricewaterhouseCoopers LLP.

Year ended 31 March	2017 £000	2016 £000	2015 £000
Fees payable to the company's auditors and its associates for:			
Audit services[a]			
The audit of parent company and consolidated financial statements	4,271	3,871	2,882
The audit of the company's subsidiaries	5,664	5,073	4,799
	9,935	**8,944**	**7,681**
Audit related assurance services[b]	**1,865**	**2,210**	**1,639**
Other non-audit services			
Taxation compliance services[c]	366	412	350
Taxation advisory services[d]	111	156	401
All other assurance services[e]	200	1,611	3,199
All other services[f]	2,332	1,665	570
	3,009	**3,844**	**4,520**
Total services	**14,809**	**14,998**	**13,840**

a Services in relation to the audit of the parent company and the consolidated financial statements, including fees for reports under section 404 of the Sarbanes-Oxley Act. This also includes fees payable for the statutory audits of the financial statements of subsidiary companies.
b Services in relation to other statutory filings or engagements that are required by law or regulation to be carried out by an appointed auditor. This includes fees for the audit of the group's regulatory financial statements and reporting associated with the group's US debt shelf registration.
c Services relating to tax returns, tax audits, monitoring and enquiries.
d Fees payable for all taxation advisory services not falling within taxation compliance.
e All other assurance services include fees payable to PricewaterhouseCoopers LLP as reporting Accountants in 2015/16 in relation to the listing Prospectus, which was issued on 26 January 2016 for the issue of new shares and in 2014/15 in relation to the Circular to shareholders, which was issued on 1 April 2015, both in connection with the acquisition of EE.
f Fees payable for all non-audit services not covered above, principally comprising other advisory services.

The BT Pension Scheme is an associated pension fund as defined in the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) (Amendment) Regulations 2011. In the year ended 31 March 2017 PricewaterhouseCoopers LLP received total fees from the BT Pension Scheme of £2.1m (2015/16: £1.7m, 2014/15: £2.5m) in respect of the following services:

Year ended 31 March	2017 £000	2016 £000	2015 £000
Audit of financial statements of associates	251	213	265
Audit-related assurance services	–	10	10
Taxation compliance services	210	198	374
Taxation advisory services	493	681	227
Other non-audit services	1,168	603	1,605
Total services	2,122	1,705	2,481

8. Specific items

Year ended 31 March	Notes	2017 £m	2016 £m	2015 £m
Revenue				
Italian business investigation		22	–	–
Regulatory matters		(2)	(203)	(128)
EE fair value adjustment		–	70	–
		20	**(133)**	**(128)**
Operating costs				
Regulatory matters		481	203	75
Italian business investigation		238	–	–
EE acquisition and integration costs		215	113	19
Out of period irrecoverable VAT		30	–	–
Profit on disposal of businesses		(16)	–	(6)
Property rationalisation costs		–	29	45
Restructuring charges		–	–	315
Profit on disposal of property		–	–	(67)
		948	**345**	**381**
Operating loss		**968**	**212**	**253**
Net finance expense				
Interest expense on retirement benefit obligation		209	221	292
EE related finance cost		–	8	7
Interest on out of period irrecoverable VAT		1	–	–
		210	**229**	**299**
Share of results of associates and joint ventures				
Profit on disposal of interest in associates and joint ventures		–	–	(25)
Net specific items charge before tax		**1,178**	**441**	**527**
Taxation				
Tax credit on specific items above		(154)	(70)	(121)
Tax credit on re-measurement of deferred tax		(63)	(96)	–
	9	**(217)**	**(166)**	**(121)**
Net specific items charge after tax		**961**	**275**	**406**

Italian business investigation
Our investigation into our Italian business revealed prior-period errors from inappropriate behaviour and improper accounting practices as set out in note 1. During the year, we also reviewed the carrying value of the assets and liabilities on the balance sheet of our Italian business including reassessing the recoverability of trade and other receivables and reconsidering other exposures, principally sales taxes. We took into account any changes in facts or circumstances since 31 March 2016 in determining whether there was a need to change an estimate and whether additional exposures had arisen in the current year. This exercise required a level of judgement, in many cases taking a more cautious view based on our current understanding of circumstances in the business. We have set out in note 16 details of estimates we make in accounting for the recoverability of trade and other receivables. We have made estimates for the potential other exposures, principally sales taxes, which represent the group's best estimate of the amount that may be required to settle the obligation and are included within other payables as set out in note 17.

The total impact of £245m is presented within specific items given the size and one-off nature. We have also incurred fees in relation to the investigation of £15m which have been included with specific items.

Regulatory matters
We've recognised £479m (2015/16: £nil, 2014/15: revenue of £53m) of net costs in relation to regulatory matters. These are made up of the following:

Deemed Consent
A charge of £342m was recognised (2015/16: £nil, 2014/15: £nil) in relation to Ofcom's March 2017 findings on our historical practices on Deemed Consent by Openreach. A fine of £42m has been imposed and we've also agreed to compensate Communication Providers. The precise amount of these compensation payments will be determined from discussion with the affected parties and is currently estimated at £300m.

8. Specific items continued

Ladder pricing agreements

In 2016/17 we recognised revenue and costs of £8m (2015/16: £203m and in 2014/15: £128m revenue) being the prior year impacts of ladder pricing agreements with the other UK mobile operators. This was following a Supreme Court judgment in July 2014 which overturned a Court of Appeal judgment made in July 2012. The Court of Appeal's ruling had disallowed our ladder pricing policy relating to 0800, 0845 and 0870 calls from mobile phones terminating on our network.

Other regulatory matters

We've also re-assessed our regulatory risk provision in light of recent regulatory decisions by Ofcom and by the Competition Appeals Tribunal (CAT). As a result we've increased our net provision by £137m (2015/16: £nil) for the year.

In 2014/15 the Competition Appeal Tribunal (CAT) handed down judgment on various appeals brought against a December 2012 Ofcom determination on the pricing of certain Ethernet products. Ofcom had determined that BT had overcharged for certain services between 1 April 2006 and 31 March 2011 and required BT to make repayments. The CAT judged that BT should also pay interest on these amounts. Together with a review of our regulatory risk position in relation to other historical matters, we recognised a specific item charge of £75m in 2014/15.

EE fair value adjustment

In 2015/16 we recognised a fair value adjustment on the acquisition of EE which reduced the amount of deferred income in relation to its prepaid subscriber base by £70m with no cash impact. The step down reflects the difference between the amount recorded by EE on acquisition and the fair value calculated based on the incremental cost that a market participant would incur to take on the liability plus a reasonable profit margin. This amount was released as a reduction to revenue in the period between acquisition and 31 March 2016, reflecting the period over which EE provided the related service.

EE acquisition and integration costs

We incurred £215m (2015/16: £113m, 2014/15: £19m) of acquisition and integration related costs for EE. This includes a £62m (2015/16: £nil, 2014/15: £nil) amortisation charge relating to the write-off of IT assets as we integrate the EE and BT IT infrastructure. Integration costs include EE related restructuring and leaver costs in year.

Out of period irrecoverable VAT

We recognised a £30m charge (2015/16: £nil, 2014/15: £nil) for out of period irrecoverable VAT and a further £1m (2015/16: £nil, 2014/15: £nil) related interest charge.

Profit on disposal of businesses

During the year we disposed of non-core businesses with a gain on disposal of £16m (2015/16: £nil, 2014/15: £6m).

Property rationalisation costs

In 2015/16 we recognised a £29m charge (2014/15: £45m) relating to the rationalisation of the group's property portfolio.

Restructuring charges

There were no restructuring charges for the current year or in 2015/16. The components of the restructuring charges recognised in 2014/15 were: people and property charges of £294m, principally comprising leaver costs of £237m, and property exit costs and networks, products and procurement channels rationalisation charges of £21m.

Profit on disposal of property

In 2014/15 we disposed of a surplus building in London, Keybridge House, for a consideration of £93m resulting in a profit of £67m.

Interest expense on retirement benefit obligation

See note 19 for more details.

Profit on disposal of interest in associates and joint ventures

In 2014/15 we recognised a £25m profit on the disposal of an associate, which was held at £nil cost.

Tax credit on re-measurement of deferred tax

See note 9 for more details.

9. Taxation

Current and deferred income tax
What critical judgements and estimates do we make in accounting for taxation?
We pay tax in accordance with the laws of the countries where we do business. In some areas these laws aren't clear, and it can take many years to agree an outcome with a tax authority or through litigation. We estimate our tax on country-by-country and issue-by-issue bases. Our key uncertainties are whether EE's tax losses will be available to us, whether our intra-group trading model will be accepted by a particular tax authority and whether intra-group payments are subject to withholding taxes. We provide for the most likely outcome where an outflow is probable, but the agreed amount can differ materially from our estimates. Approximately 80% by value of the provisions are under active tax authority examination and are therefore likely to be re-estimated or resolved in the coming 12 months. £281m (2015/16: £278m) is included in current tax liabilities in relation to these uncertainties.

Under a downside case an additional amount of £372m could be required, of which £273m would relate to EE losses. This amount is not provided as we don't consider this outcome to be probable.

Deciding whether to recognise deferred tax assets is judgemental. We only recognise them when we believe it is probable that they can be recovered. In making this judgement we consider evidence such as historical financial performance, future financial plans and trends, the duration of existing customer contracts and whether our intra-group pricing model has been agreed by the relevant tax authority.

The value of the group's income tax assets and liabilities is disclosed on the **Group balance sheet** on page 111. The value of the group's deferred tax assets and liabilities, including the deferred tax asset recognised in respect of EE limited's historical tax losses, is disclosed below.

Analysis of our taxation expense for the year

Year ended 31 March	**2017** **£m**	2016 £m	2015 £m
United Kingdom			
Corporation tax at 20% (2015/16: 20%, 2014/15: 21%)	(594)	(684)	(702)
Adjustments in respect of earlier years	33	59	35
Non-UK taxation			
Current	(109)	(80)	(60)
Adjustments in respect of earlier years	–	29	18
Total current tax expense	**(670)**	**(676)**	**(709)**
Deferred taxation			
Origination and reversal of temporary differences	96	70	170
Adjustments in respect of prior periods	26	2	(18)
Impact of change in UK corporation tax rate to 17% (2015/16: 19%, 2014/15: 20%)	63	96	–
Total deferred taxation credit	**185**	**168**	**152**
Total taxation expense	**(485)**	**(508)**	**(557)**

9. **Taxation** continued

Factors affecting our taxation expense for the year

The taxation expense on the profit for the year differs from the amount computed by applying the UK corporation tax rate to the profit before taxation as a result of the following factors:

Year ended 31 March	**2017 £m**	2016 £m	2015 £m
Profit before taxation	**2,551**	**3,241**	**2,789**
Expected taxation expense at UK rate of 20% (2015/16: 20%, 2014/15: 21%)	(510)	(648)	(586)
Effects of:			
(Higher) lower taxes on non-UK profits[a]	(29)	4	(4)
Net permanent differences between tax and accounting[b]	(183)	(12)	(4)
Adjustments in respect of earlier years[c]	59	90	35
Non-UK losses used against current year profits[a]	120	9	28
Non-UK losses not recognised[a,d]	(8)	(34)	(50)
Other deferred tax assets not recognised	–	6	9
Lower taxes on profit on disposal of business	3	–	7
Re-measurement of deferred tax balances	63	96	–
Other non-recurring items	–	(19)	8
Total taxation expense	**(485)**	**(508)**	**(557)**
Exclude specific items (note 8)	(217)	(166)	(121)
Total taxation expense before specific items	**(702)**	**(674)**	**(678)**

[a] Earlier years re-presented to reflect adjustments for BT Italia.
[b] Includes income that is not taxable or UK income taxable at a different rate, and expenses for which no tax relief is received. Examples include some types of depreciation and amortisation and the benefit of R&D tax incentives.
[c] Reflects the differences between initial accounting estimates and tax returns submitted to tax authorities, including the release and establishment of provisions for uncertain tax positions.
[d] Reflects losses made in countries where it has not been considered appropriate to recognise a deferred tax asset, as future taxable profits are not probable.

Tax components of other comprehensive income

Year ended 31 March	**2017 Tax credit (expense) £m**	2016 Tax credit (expense) £m	2015 Tax credit (expense) £m
Tax on items that will not be reclassified to the income statement			
Pension remeasurements	416	(240)	208
Tax on items that have been or may be reclassified subsequently to the income statement			
Exchange differences on translation of foreign operations	**21**	**38**	**13**
Fair value movements on cash flow hedges			
– net fair value gains or losses	(131)	(72)	(28)
– recognised in income and expense	139	39	52
	445	**(235)**	**245**
Current tax credit[a]	122	231	268
Deferred tax expense	323	(466)	(23)
	445	**(235)**	**245**

[a] Includes £110m (2015/16: £217m, 2014/15: £220m) relating to cash contributions made to reduce retirement benefit obligations.

Tax (expense) credit recognised directly in equity

Year ended 31 March	**2017 £m**	2016 £m	2015 £m
Tax (expense) credit relating to share-based payments	**(6)**	**12**	**54**

9. **Taxation** continued

Deferred taxation

	Fixed asset temporary differences £m	Retirement benefit obligations[a] £m	Share-based payments £m	Tax losses £m	Other £m	Jurisdictional offset £m	Total £m
At 1 April 2015	1,041	(1,483)	(86)	(44)	(39)	–	(611)
(Credit) expense recognised in income statement	(63)	(107)	2	34	(34)	–	(168)
Expense (credit) recognised in other comprehensive income	(4)	457	–	(2)	15	–	466
Expense recognised in equity	–	–	30	–	–	–	30
Acquisition	644	(16)	–	(313)	(17)	–	298
At 31 March 2016	**1,618**	**(1,149)**	**(54)**	**(325)**	**(75)**	**–**	**15**
Non-current							
Deferred tax asset	(81)	(1,149)	(54)	(325)	(102)	464	(1,247)
Deferred tax liability	1,699	–	–	–	27	(464)	1,262
At 1 April 2016	**1,618**	**(1,149)**	**(54)**	**(325)**	**(75)**	**–**	**15**
(Credit) expense recognised in the income statement	(181)	(82)	14	65	(1)	–	(185)
(Credit) expense recognised in other comprehensive income	(5)	(306)	–	(3)	(9)	–	(323)
Expense recognised in equity	–	–	23	–	–	–	23
Exchange differences	–	–	–	(7)	–	–	(7)
At 31 March 2017	**1,432**	**(1,537)**	**(17)**	**(270)**	**(85)**	**–**	**(477)**
Non-current							
Deferred tax asset	(117)	(1,537)	(17)	(270)	(96)	320	(1,717)
Deferred tax liability	1,549	–	–	–	11	(320)	1,240
At 31 March 2017	**1,432**	**(1,537)**	**(17)**	**(270)**	**(85)**	**–**	**(477)**

a Includes a deferred tax asset of £2m (2015/16: £2m) arising on contributions payable to defined contribution pension plans.

The majority of the deferred tax assets and liabilities noted above are anticipated to be realised after more than 12 months.

We've recognised a deferred tax asset at 31 March 2017 of £172m in respect of EE limited's historical tax losses. We expect to be able to utilise these against future taxable profits in EE Limited. If EE Limited's business were subject to a major change in the nature or conduct of trade on or before 5 February 2018, these losses would be forfeited and a current tax liability of £273m would be created. Based on our current plans, we do not expect a major change to arise.

Deferred tax balances for which there is a right of offset within the same jurisdiction are presented net on the face of the group balance sheet as permitted by IAS 12, with the exception of deferred tax related to our pension schemes which is disclosed within deferred tax assets.

What factors affect our future tax charges?

The rate of UK corporation tax changed from 20% to 19% on 1 April 2017 and will change to 17% on 1 April 2020. As deferred tax assets and liabilities are measured at the rates that are expected to apply in the periods of the reversal, deferred tax balances at 31 March 2017 have been calculated at the rate at which the relevant balance is expected to be recovered or settled. This reduction in rate has been recognised as a deferred tax credit specific item of £63m in the income statement (note 8) and as a deferred tax expense in reserves.

What are our unrecognised tax losses and other temporary differences?

At 31 March 2017 we had operating losses and other temporary differences carried forward in respect of which no deferred tax assets were recognised amounting to £4.4bn (2015/16: £4.1bn). Our other temporary differences have no expiry date restrictions. The expiry date of operating losses carried forward is dependent upon the tax law of the various

9. **Taxation** continued

territories in which the losses arose. A summary of expiry dates for losses in respect of which restrictions apply is set out below:

At 31 March 2017	£m	Expiry
Restricted losses		
Europe	19	2018–2026
Americas	220	2021–2036
Total restricted losses	**239**	
Unrestricted operating losses	**3,961**	**No expiry**
Other temporary differences	**173**	**No expiry**
Total	**4,373**	

At 31 March 2017 we had UK capital losses carried forward in respect of which no deferred tax assets were recognised amounting to £17.0bn (2015/16: £17.0bn). These losses have no expiry date, but we consider the future utilisation of these losses to be remote.

At 31 March 2017 the undistributed earnings of non-UK subsidiaries were £3.5bn (2015/16: £3.3bn). No deferred tax liabilities have been recognised in respect of these unremitted earnings because the group is in a position to control the timing of any dividends from subsidiaries and hence any tax consequences that may arise. Under current tax rules, tax of £26.2m (2015/16: £23.1m) would arise if these earnings were to be repatriated to the UK. On 29 March 2017, the UK Government notified the EU of its intention to withdraw membership from the EU. Depending on the outcome of negotiations we could cease to benefit from the EU Parent subsidiary directive on dividends paid by our EU subsidiaries. In this event, additional tax of up to £17.7m could arise if the undistributed earnings of EU subsidiaries of £619m were to be repatriated to the UK.

10. Dividends

A dividend of £2,350m (2015/16: £1,450m, 2014/15: £1,200m), was settled on 12 May 2016 in relation to the year ended 31 March 2016. This is disclosed in the group statement of charges in equity. No dividend has been declared in relation to the year ended 31 March 2017.

11. Intangible assets

	Goodwill £m	Customer relationships and brands £m	Telecoms licences and other £m	Internally developed software £m	Purchased software £m	Total £m
Cost						
At 1 April 2015	1,404	399	390	3,680	1,230	7,103
Acquisitions[a]	6,459	2,997	2,524	129	286	12,395
Additions	–	–	1	331	80	412
Disposals and adjustments	–	–	–	(63)	(27)	(90)
Transfers	–	–	–	(4)	4	–
Exchange differences	52	5	15	–	37	109
At 31 March 2016	**7,915**	**3,401**	**2,930**	**4,073**	**1,610**	**19,929**
Additions	–	–	–	483	138	621
Acquisitions	5	–	–	–	–	5
Disposals and adjustments	(23)	–	–	(131)	2	(152)
Transfers	–	–	–	(66)	62	(4)
Exchange differences	145	21	15	4	41	226
At 31 March 2017	**8,042**	**3,422**	**2,945**	**4,363**	**1,853**	**20,625**
Accumulated amortisation						
At 1 April 2015		**336**	**96**	**2,401**	**1,092**	**3,925**
Charge for the year		78	27	437	79	621
Disposals and adjustments		–	–	(91)	(28)	(119)
Exchange differences		4	8	–	32	44
At 31 March 2016		**418**	**131**	**2,747**	**1,175**	**4,471**
Charge for the year[b]		383	140	556	101	1,180
Disposals and adjustments		–	–	(114)	(7)	(121)
Exchange differences		12	9	4	33	58
At 31 March 2017		**813**	**280**	**3,193**	**1,302**	**5,588**
Carrying amount						
At 31 March 2017	**8,042**	**2,609**	**2,665**	**1,170**	**551**	**15,037**
At 31 March 2016	7,915	2,983	2,799	1,326	435	15,458

a Relates to the fair value of intangible assets identified on acquisition of EE on 29 January 2016. See note 13.
b Includes a £62m (2015/16: £nil) specific item amortisation charge relating to the write-off of internally developed software as we integrate the EE and BT IT infrastructure.

Goodwill

Goodwill recognised in a business combination does not generate cash flows independently of other assets or groups of assets. As a result, the recoverable amount, being the value in use, is determined at a cash generating unit (CGU) level.

How do we determine our CGUs?

The determination of our CGUs is judgemental. The identification of CGUs involves an assessment of whether the asset or group of assets generate largely independent cash inflows. This involves consideration of how our core assets are operated and whether these generate independent revenue streams. Our CGUs are deemed to be consumer, EE, Business and Public Sector, Global Services and Wholesale and Ventures which are the same units we report in our segmental reporting.

For impairment purposes goodwill is tested at the lowest level within the entity at which the goodwill is monitored for internal management purposes, and cannot be larger than our operating segments. We test goodwill at the CGU level.

What other critical estimates and assumptions have we made?

During the year we re-allocated goodwill among our CGUs based on the relative fair value of the business transferred to reflect our new line of business structure effective as of 1 April 2016. We estimated the relative fair values on a discounted cash flow basis using the three-year financial plans effective at the time of the re-organisation. The assumptions used were set in the same way as those used in our value in use calculations as set out below.

11. Intangible assets continued

Our value in use calculations require estimates in relation to uncertain items, including management's expectations of future revenue growth, operating costs, profit margins, operating cash flows, and the discount rate for each CGU.

Future cash flows used in the value in use calculations are based on our latest Board approved three-year financial plans. Expectations about future growth reflect the expectations of growth in the markets to which the CGU relates. The future cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money. The discount rate used in each CGU is adjusted for the risk specific to the asset, including the countries in which cash flow will be generated, for which the future cash flow estimates have not been adjusted.

The group is required to test goodwill acquired in a business combination annually for impairment. This was carried out as at 31 March 2017. The carrying value of goodwill and the key assumptions used in performing the annual impairment assessment and sensitivities are disclosed below.

How have we carried out our goodwill impairment review?
We perform an annual goodwill impairment review, based on our CGUs.

From 1 April 2016, we re-organised our lines of business resulting in the change of the CGUs that have associated goodwill. We've now allocated goodwill to Consumer, EE, Business and Public Sector, Global Services and Wholesale and Ventures. Previously no goodwill was allocated to Wholesale and Ventures. In addition to this new CGU, to which goodwill has been allocated, there have been changes to the amount allocated to the other CGUs as a result of the re-organisation.

These CGUs represent the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other groups of assets, and to which goodwill is allocated. Goodwill is allocated to these CGUs as follows:

	Consumer £m	EE £m	Business and Public Sector £m	Global Services £m	Wholesale and Ventures £m	Total £m
At 31 March 2015	80	–	220	1,104	–	1,404
Acquisitions (note 14)	1,103	4,917	439	–	–	6,459
Exchange differences	–	–	3	49	–	52
At 31 March 2016	**1,183**	**4,917**	**662**	**1,153**	**–**	**7,915**
Re-organisation	–	(2,149)	1,921	(709)	937	–
Exchange differences	–	–	10	135	–	145
Acquisitions and disposals	–	–	(23)	–	5	(18)
At 31 March 2017	**1,183**	**2,768**	**2,570**	**579**	**942**	**8,042**

How do we calculate the recoverable amount?
The value in use of each CGU is determined using cash flow projections derived from financial plans approved by the Board covering a three-year period. They reflect management's expectations of revenue, EBITDA growth, capital expenditure, working capital and operating cash flows, based on past experience and future expectations of business performance. The value in use calculation includes a fourth year estimate of cash flows which is held flat from the last year assumed in the financial plans approved by the Board. Cash flows beyond the fourth-year period have been extrapolated using perpetuity growth rates.

What discount rate have we used?
The pre-tax discount rates applied to the cash flow forecasts are derived from our post-tax weighted average cost of capital. The assumptions used in the calculation of the group's weighted average cost of capital are benchmarked to externally available data. The pre-tax discount rate used in performing the value in use calculation in 2016/17 was 8.6% (2015/16: 8.8%). We've used the same discount rate for all CGUs except global services where we have used 9.0% reflecting higher risk in some of the countries in which global services operates.

What growth rates have we used?
The perpetuity growth rates are determined based on the forecast market growth rates of the regions in which the CGU operates, and they reflect an assessment of the long-term growth prospects of that market. The growth rates have been benchmarked against external data for the relevant markets. None of the growth rates applied exceed the expected long-term average growth rates for those markets or sectors. The perpetuity growth rate for global services was 2.4% (2015/16: 2.3%) and 2.0% (2015/16: 2.0%) for Business and Public sector, Consumer and EE and 2.0% (2015/16: nil) for Wholesale and Ventures.

11. Intangible assets continued

What sensitivities have we applied?
There is significant headroom in Business and Public Sector, Consumer, Wholesale and Ventures and EE. No reasonably possible changes in the key assumptions would cause the carrying amount of the CGUs to exceed the recoverable amount. For Global Services, the value in use exceeds the carrying value of the CGU by approximately £586m (2015/16: £6,900m). Any of the following changes in assumptions would cause the recoverable amount for the CGU to equal its carrying amount:

- reduction in the perpetuity growth rate from the 2.4% assumption applied to a revised assumption of no growth;
- an increase in the discount rate from the 9.0% assumption applied to a revised assumption of 11%; and
- shortfalls in trading performance against forecast resulting in operating cash flows decreasing by 27% each year and in perpetuity.

12. Property, plant and equipment

What critical estimates have we made for property plant and equipment?
The plant and equipment in our networks is long-lived with cables and switching equipment operating for over ten years and underground ducts being used for decades. We also develop software for use in IT systems and platforms that support the products and services provided to our customers.

Our annual depreciation and amortisation charge is sensitive to the estimated service life we allocate to each type of asset. If an asset life is extended this would reduce the annual depreciation or amortisation charge; reducing a life would increase the charge. Asset lives are assessed annually and changed when necessary to reflect our current thinking on technological change, network investment plans (including the group's fibre rollout programme), prospective economic utilisation and the physical condition of the assets concerned. Changes to the service lives of assets implemented in the year had no significant impact on our results for the year ended 31 March 2017.

12. Property, plant and equipment continued

The carrying values of software, property, plant and equipment are disclosed below and in note 11. The useful lives applied to the principal categories of assets are disclosed on pages 124 and 125.

	Land and buildings[a] £m	Network infrastructure[a] £m	Other[b] £m	Assets in course of construction £m	Total £m
Cost					
At 1 April 2015	1,132	45,179	1,788	527	48,626
Acquisitions	98	1,772	43	357	2,270
Additions[c]	13	78	67	2,055	2,213
Transfers	22	1,810	9	(1,841)	–
Disposals and adjustments[d]	(17)	(879)	(60)	8	(948)
Exchange differences	30	234	23	2	289
At 31 March 2016	**1,278**	**48,194**	**1,870**	**1,108**	**52,450**
Additions[c]	6	40	128	2,672	2,846
Transfers	14	2,393	(1)	(2,402)	4
Disposals and adjustments[d]	(45)	(1,637)	(106)	30	(1,758)
Exchange differences	49	382	47	5	483
At 31 March 2017	**1,302**	**49,372**	**1,938**	**1,413**	**54,025**
Accumulated depreciation					
At 1 April 2015	687	33,069	1,446	–	35,202
Charge for the year	53	1,856	101	–	2,010
Disposals and adjustments[d]	(17)	(848)	(56)	–	(921)
Exchange differences	27	210	22	–	259
At 31 March 2016	**750**	**34,287**	**1,513**	**–**	**36,550**
Charge for the year	64	2,224	104	–	2,392
Disposals and adjustments[d]	(36)	(1,627)	(104)	–	(1,767)
Exchange differences	39	330	41	–	410
At 31 March 2017	**817**	**35,214**	**1,554**	**–**	**37,585**
Carrying amount					
At 31 March 2017	**485**	**14,158**	**384**	**1,413**	**16,440**
Engineering stores	–	–	–	58	58
Total at 31 March 2017	**485**	**14,158**	**384**	**1,471**	**16,498**
At 31 March 2016	**528**	**13,907**	**357**	**1,108**	**15,900**
Engineering stores	–	–	–	71	71
Total at 31 March 2016	**528**	**13,907**	**357**	**1,179**	**15,971**

a The carrying amount of the group's property, plant and equipment includes an amount of £73m (2015/16: £83m) in respect of assets held under finance leases, comprising land and buildings of £45m (2015/16: £52m) and network infrastructure of £28m (2015/16: £31m). The depreciation expense on those assets in 2016/17 was £10m (2015/16: £10m), comprising land and buildings of £3m (2015/16: £4m) and network infrastructure of £7m (2015/16: £6m).
b Other mainly comprises motor vehicles, computers and fixtures and fittings.
c Net of grant deferral of £28m (2015/16: £109m net grant funding).
d Fully depreciated assets in the group's fixed asset registers were reviewed during the year, as part of the group's annual asset verification exercise, and certain assets that were no longer in use have been written off, reducing cost and accumulated depreciation by £1.1bn (2015/16: £0.7bn) .

At 31 March	2017 £m	2016 £m
The carrying amount of land and buildings, including leasehold improvements, comprised:		
Freehold	269	296
Leasehold	216	232
Total land and buildings	**485**	**528**

Network infrastructure

Some of our network assets are jointly controlled by EE Limited with Hutchison 3G UK Limited. These relate to shared 3G network and certain elements of network for 4G rural sites. The net book value of the group's investment in this shared operation is £591m (2015/16: £519m) and is recorded within network infrastructure. Included within this is £179m (2015/16: £128m), being the group's share of assets owned by its joint operation MBNL.

12. Property, plant and equipment continued

Within network infrastructure are assets with a net book value of £8.0bn which have useful economic lives of more than 18 years.

Government grants relating to Broadband Delivery UK (BDUK) contracts

The group receives government grants in relation to the BDUK programme and other rural superfast broadband contracts. Where we've achieved certain service levels, or delivered the network more efficiently than anticipated, we've an obligation to either re-invest or repay grant funding. Where this is the case, we assess and defer the income with a corresponding increase in capital expenditure.

What estimates and critical judgements have we made in accounting for our BDUK contracts?

Assessing the timing of whether and when we change the estimated take-up assumption is judgemental as it involves considering information which is not always observable. Our consideration on whether and when to change the base case assumption is dependent on our expectation of the long term take-up trend.

Our assessment of how much grant income to defer includes consideration of the difference between the take-up percentage agreed with the local authority and the likelihood of actual take-up. The value of the government grants deferred is disclosed in note 17.

We receive grant funding mainly under the BDUK programme which reduces the capital expenditure incurred by Openreach. Under the terms of the programme, we have a potential obligation to either re-invest or repay grant funding depending on factors including the level of take-up achieved. In the current year we had a net grant deferral of £28m (2015/16: £109m net grant funding) mainly related to our activity on the BDUK programme. Our base case assumption for take-up in BDUK areas has been increased to 39% following our review of the level of customer take-up. To date we have deferred £446m (2015/16: £258m).

13. Business combinations

All business combinations are accounted for using the acquisition method regardless of whether equity instruments or other assets are acquired.

What critical judgements do we apply in accounting for business combinations?

We exercise judgement in allocating the purchase consideration to acquired assets and liabilities. We also take into account future integration and our plan on how goodwill will be monitored post acquisition. Assessing how much of the estimated synergies are buyer or market specific is also judgemental as it requires us to determine what a market participant could reasonably achieve, which is inherently judgemental. Buyer specific synergies support the goodwill amount recognised while market specific synergies are factored into the fair value measurement of the acquired assets and liabilities. We also exercise judgement in identifying all of the intangible assets we have acquired.

What other critical estimates and assumptions have we made?

We initially measure identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination, with limited exceptions, at their fair values at the acquisition date. The fair value of an asset or liability represents the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants.

In determining the fair value of the intangible assets acquired for EE we generally used risk-adjusted future cash flows discounted using discount rates specific to the asset. In determining the cashflows, we have used a combination of historical data and estimates regarding revenue growth, profit margins and operating cash flows. Tangible assets were valued by estimating current cost to purchase or replace the assets. We used independent valuers to assist in the valuation for EE.

We didn't make any material acquisitions in the year ended 31 March 2017. We have however revisited the provisional fair values ascribed to our acquisition of EE which took place on 29 January 2016. This acquisition resulted in us acquiring the entire share capital of EE Limited (EE) from Deutsche Telekom and Orange. The total purchase consideration amounted to £10,971m with a goodwill value of £6,430m after considering the provisional fair values of the identifiable net assets acquired of £4,541m. During the year, we've received a purchase consideration refund from the previous owners of £20m following the finalisation of the audit of the completion balance sheet and have also finalised our reassessment of the provisional fair values within the measurement period. This resulted in a revision to previously recognised brand, customer relationship and prepaid assets which decreased by £15m. Our reassessment also led to a £14m decrease in receivables and an increase in provisions related to unfavourable contracts in the amount of

13. Business combinations continued

£20m. The net impact of the adjustment including the deferred tax effect resulted in an increase of £29m in goodwill with no material impact on the income statement for the period ended 31 March 2016.

In the prior year, we provisionally paid £3,464m of cash and issued 1,595m of new shares valued at £7,507m (using the opening share price of 470.7p per share on 29 January 2016, being the date of acquisition of EE and the date when the shares were admitted to trading).

The excess of the consideration transferred over the fair value of the net identifiable assets acquired is recorded as goodwill. For the acquisition of EE this amounted to £6,430m. The fair values ascribed and the resulting goodwill were recognised on a provisional basis which the group had one year from the acquisition date to re-measure. As discussed above we completed this in 2016/17 resulting in an increase of £29m in goodwill.

14. Programme rights

	Total £m
At 1 April 2015	118
Additions	651
Amortisation	(544)
At 1 April 2016	225
Additions	753
Amortisation	(714)
At 31 March 2017	**264**

Additions reflect TV programme rights for which the legally enforceable licence period has started during the year. Payments made for programme rights for which the legally enforceable licence period has not yet started are included within prepayments (see note 16).

TV programme rights commitments are disclosed in note 29.

15. Inventories

At 31 March	2017 £m	2016 £m	2015 £m
Consumables	24	26	25
Work in progress	23	11	10
Finished goods	180	152	59
	227	**189**	**94**

Inventories recognised as an expense during the year ended 31 March 2017 amounted to £2,680m (2015/16: £1,369m[a]). These were included in 'operating costs' in our income statement.

a We have revised prior year information to be on a consistent basis.

16. Trade and other receivables

We've made various judgements in accounting for trade and other receivables. These include long-term contracts and bad debt provisions.

Long-term customer contracts

Long-term customer contracts can extend over a number of financial years. During the contractual period recognition of costs and profits may be impacted by judgements and estimates made.

What critical judgements have we made?

We've exercised judgement in assessing when the transition or transformation phase of a contract ends. This influences the timing of recognition of revenue and costs which are deferred until the transition or transformation phase ends unless these elements of a contract have standalone value.

Judgements are also required in assessing the lifetime profitability of a contract when determining whether we have an onerous contract liability. Where we have an onerous contract liability this would be classified in provisions.

16. Trade and other receivables continued

How do we estimate and recognise contract losses?

We estimate and recognise immediately the entire estimated loss for a contract when we have evidence that the contract is unprofitable. Also if these estimates indicate that any contract will be less profitable than previously forecast, contract assets may have to be written down to the extent they are no longer considered to be fully recoverable. We perform ongoing profitability reviews of our contracts in order to determine whether the latest estimates are appropriate. Key factors reviewed include:

- Transaction volumes or other inputs affecting future revenues which can vary depending on customer requirements, plans, market position and other factors such as general economic conditions.
- Our ability to achieve key contract milestones connected with the transition, development, transformation and deployment phases for customer contracts.
- The status of commercial relations with customers and the implication for future revenue and cost projections.
- Our estimates of future staff and third-party costs and the degree to which cost savings and efficiencies are deliverable.

The carrying value of assets comprising the costs of the initial set-up, transition or transformation phase of long-term networked IT services contracts is disclosed below.

At 31 March	2017 £m	2016 £m	2015 £m
Non-current			
Other assets[a]	360	218	179

a Other assets includes costs relating to the initial set-up, transition or transformation phase of long-term networked IT services contracts of £163m (2015/16: £111m, 2014/15: £89m), and prepayments and leasing debtors of £197m (2015/16: £107, 2014/15: £90m).

At 31 March	2017 £m	2016 £m	2015 £m
Current			
Trade receivables	1,774	1,803	1,410
Amounts owed by ultimate parent company	25	9	1
Prepayments	733	702	502
Accrued income	955	1,072	810
Other receivables[a]	373	401	371
	3,860	**3,987**	**3,094**

a Other receivables includes assets held for sale of £22m (2015/16: £nil, 2014/15: £nil).

Trade receivables are stated after deducting allowances for doubtful debts, as follows:

	2017 £m	2016 £m	2015 £m
At 1 April	195	196	192
Expense	211	77	78
Utilised	(114)	(89)	(58)
Exchange differences	11	11	(16)
At 31 March	**303**	**195**	**196**

Included within the expense above are amounts for exposures relating to the Italian business investigation, as set out in note 8.

How do we assess recoverability of our receivables?

We provide services to consumer and business customers, mainly on credit terms. We know that certain debts due to us will not be paid through the default of a small number of our customers. Judgements are required in assessing the recoverability of trade receivables and whether a provision for doubtful debts may be required.

In estimating a provision for doubtful debts we consider historical experience alongside other factors such as the current state of the economy and particular industry issues. The value of the provision for doubtful debts is disclosed above.

Trade receivables are continuously monitored and allowances applied against trade receivables consist of both specific impairments and collective impairments based on our historical loss experiences for the relevant aged category as well as taking into account general economic conditions. Historical loss experience allowances are calculated by line of business in order to reflect the specific nature of the customers relevant to that line of business.

16. Trade and other receivables continued

Trade and other receivables are classified as loans and receivables and are held at amortised cost. The carrying amount of these balances approximates to fair value due to the short maturity of amounts receivable.

Note 25 provides further disclosure regarding the credit quality of our gross trade receivables.

Trade receivables are due as follows:

			Past due and not specifically impaired				
At 31 March	Not past due £m	Trade receivables specifically impaired net of provision £m	Between 0 and 3 months £m	Between 3 and 6 months £m	Between 6 and 12 months £m	Over 12 months £m	Total £m
2017	1,184	146	292	17	41	94	**1,774**
2016	1,152	98	368	51	44	90	**1,803**
2015	817	1	305	50	127	110	**1,410**

Gross trade receivables which have been specifically impaired amounted to £238m (2015/16: £192m, 2014/15: £159m).

Trade receivables not past due and accrued income are analysed below by line of business.

	Trade receivables not past due			Accrued income		
At 31 March	**2017 £m**	2016 £m	2015 £m	**2017 £m**	2016 £m	2015 £m
Consumer	128	138	119	90	83	85
EE	335	267	–	170	312	–
Business and Public Sector	200	115	134	151	146	160
Global Services	444	555	460	297	351	333
Wholesale and Ventures	75	76	87	167	99	155
Openreach	1	1	15	78	79	75
Other	1	–	2	2	2	2
Total	**1,184**	**1,152**	**817**	**955**	**1,072**	**810**

Given the broad and varied nature of our customer base, the analysis of trade receivables not past due and accrued income by line of business is considered the most appropriate disclosure of credit concentrations. Cash collateral held against trade and other receivables amounted to £4m (2015/16: £4m, 2014/15: £4m).

17. Trade and other payables

At 31 March	**2017 £m**	**2016** £m	**2015** £m
Current			
Trade payables	4,205	4,331	2,875
Amounts owed to parent company	63	70	41
Amounts owed to ultimate parent company	–	–	5
Other taxation and social security	704	682	416
Other payables	648	527	540
Accrued expenses	382	418	414
Deferred income[a]	1,474	1,435	1,078
	7,476	**7,463**	**5,369**

At 31 March	**2017 £m**	**2016** £m	**2015** £m
Non-current			
Other payables[b]	885	876	856
Deferred income[a]	413	230	74
	1,298	**1,106**	**930**

a Includes £71m (2015/16: £71m, 2014/15: £nil) current and £375m (2015/16: £187m, 2014/15: £29m) non-current liabilities relating to the Broadband Delivery UK programme, for which grants received by the group may be subject to re-investment or repayment depending on the level of take-up.

b Other payables relate to operating lease liabilities and deferred gains on a 2001 sale and finance leaseback transaction.

17. Trade and other payables continued

Included within other payables are amounts for exposures relating to the Italian business investigation, principally sales taxes, as set out in note 8.

18. Provisions

Provisions and contingent liabilities

As disclosed below, our provisions principally relate to obligations arising from property rationalisation programmes, restructuring programmes, asset retirement obligations, network assets, insurance claims, litigation and regulatory risks.

What critical judgements have we made in accounting for provisions?

We exercise judgement in determining the timing and quantum of all provisions to be recognised. Our assessment includes consideration of whether we have a present obligation, whether payment is probable and if so whether the amount can be estimated reliably. As part of this assessment, we also assess the likelihood of contingent liabilities occurring in the future which are not recognised as liabilities on our balance sheet. By their nature, contingencies will be resolved only when one or more uncertain future events occur or fail to occur. We assess the likelihood that a potential claim or liability will arise and also quantify the possible range of financial outcomes. We've disclosed our assessment of contingent liabilities in note 29.

What other critical estimates and assumptions have we made?

Under our property rationalisation programmes we've identified a number of surplus properties. Although efforts are being made to sub-let this space, this is not always possible. Estimates have been made of the cost of vacant possession and of any shortfall arising from any potential sub-lease income being lower than the lease costs. Any such shortfall is recognised as a provision.

Restructuring programmes involve estimation of the direct cost necessary for the restructuring and exclude items that are associated with ongoing activities.

Asset retirement obligations involve an estimate of the cost to dismantle equipment and restore sites upon vacation and the timing of the event. The provision represents the group's best estimate of the amount that may be required to settle the obligation.

Network asset provisions represent our future operational costs and vacant site rentals arising from obligations relating to network share agreements. Costs are expected to be incurred over a period of up to 20 years.

Our regulatory provision represents our best estimate of the cost to settle our present obligation in relation to historical regulatory matters. Included within the increase for the year is a £300m charge in relation to estimated compensation payments to other Communication Providers as a result of Ofcom's March 2017 findings on historical practices on Deemed Consent by Openreach. The precise amount of the compensation payments will result from discussions with the affected parties. A related fine of £42m has been imposed and is recognised as a payable rather than as a provision. The fine and associated compensation payments totalling £342m are treated as a specific item charge in this year's income statement. The remaining provision reflects management's estimates of regulatory risks across a range of issues, including price and service issues. These increased by £126m, also treated as specific items, resulting from our re-assessment of these other regulatory risks and in light of the regulatory decisions by Ofcom and by the Competition Appeals Tribunal. Refer to note 8 for further information on specific items.

In respect of claims, litigation and regulatory risks, the group provides for anticipated costs where an outflow of resources is considered probable and a reasonable estimate can be made of the likely outcome. The prices at which certain services are charged are regulated and may be subject to retrospective adjustment by regulators. Estimates are used in assessing the likely value of the regulatory risk.

For all risks, the ultimate liability may vary from the amounts provided and will be dependent upon the eventual outcome of any settlement. The estimates are discounted using a rate that reflects the passage of time and risk specific

18. Provisions continued

to the liability. An estimate is also required in assessing the timing of when a provision is recognised. The outcome of our estimate of the provisions is disclosed below.

	Restructuring £m	Property £m	Network ARO £m	Network share £m	Regulatory £m	Other[a] £m	Total £m
At 31 March 2015	45	217	–	–	84	218	564
Acquisitions	–	72	81	63	–	23	239
Income statement expense	–	28	2	–	–	15	45
Unwind of discount	–	8	–	–	–	–	8
Utilised or released	(25)	(29)	(5)	(3)	(20)	(26)	(108)
Transfers	–	–	–	–	–	(7)	(7)
Exchange differences	–	–	–	–	–	2	2
At 31 March 2016	**20**	**296**	**78**	**60**	**64**	**225**	**743**
Income statement expense	–	38	27	5	426	40	536
Unwind of discount	–	12	2	2	–	–	16
Utilised or released	(10)	(54)	(24)	(17)	(11)	(19)	(135)
Transfers	–	–	–	–	–	(3)	(3)
Exchange differences	1	–	–	–	–	3	4
At 31 March 2017	**11**	**292**	**83**	**50**	**479**	**246**	**1,161**

a Other provisions include amounts provided for legal or constructive obligations arising from insurance claims and litigation which will be utilised as the obligations are settled.

At 31 March	2017 £m	2016 £m	2015 £m
Analysed as:			
Current	625	178	142
Non-current	536	565	422
	1,161	**743**	**564**

19. Retirement benefit plans

Background to BT's pension plans

The group has both defined benefit and defined contribution retirement benefit plans. The group's main plans are in the UK and the largest by membership is the BT Pension Scheme (BTPS) which is a defined benefit plan that was closed to new entrants on 31 March 2001. After that date new entrants to BT in the UK have been able to join a defined contribution plan, currently the BT Retirement Saving Scheme (BTRSS), a contract-based arrangement. EE operates the EE Pension Scheme (EEPS), which has a defined benefit section that was closed to future benefit accrual in 2014 and a defined contribution section which is open to new joiners.

	What are they?	How do they impact BT's financial statements?
Defined contribution plans	Benefits in a defined contribution plan are linked to: • contributions paid; • the performance of each individual's chosen investments; and • the form in which individuals choose to take their benefits. Contributions are paid into an independently administered fund.	The income statement charge in respect of defined contribution plans represents the contribution payable by the group based upon a fixed percentage of employees' pay. The group has no exposure to investment and other experience risks.
Defined benefit plans	Benefits in a defined benefit plan are: • determined by the plan rules, dependent on factors such as age, years of service and pensionable pay; and • not dependent upon actual contributions made by the company or members.	The income statement service cost in respect of defined benefit plans represents the increase in the defined benefit liability arising from pension benefits earned by active members in the current period. The group is exposed to investment and other experience risks and may need to make additional contributions where it is estimated that the benefits will not be met from regular contributions, expected investment income and assets held.

19. Retirement benefit plans continued

Amounts in the financial statements

Group income statement

The expense or income arising from all group retirement benefit arrangements recognised in the group income statement is shown below.

Year ended 31 March	2017 £m	2016 £m	2015 £m
Recognised in the income statement before specific items			
Service cost (including administration expenses & PPF levy):			
– defined benefit plans	281	301	296
– defined contribution plans	240	193	176
Past service credit[a]	–	–	(5)
Total operating expense	**521**	**494**	**467**
Net interest expense on net pensions deficit included in specific items (note 8)	**209**	**221**	**292**
Total recognised in the income statement	**730**	**715**	**759**

a Past service credit relates to various pension plans operating outside the UK.

Group statement of comprehensive income

Remeasurements of the net pension obligation are recognised in full in the group statement of comprehensive income in the year in which they arise. These comprise the impact on the defined benefit liability of changes in demographic and financial assumptions compared with the start of the year, actual experience being different to those assumptions and the return on plan assets above the amount included in the net pension interest expense.

Group balance sheet

The net pension obligation in respect of defined benefit plans reported in the group balance sheet is set out below.

	2017			2016		
At 31 March	Assets £m	Present value of liabilities £m	Deficit £m	Assets £m	Present value of liabilities £m	Deficit £m
BTPS	50,090	(58,649)	(8,559)	43,121	(49,119)	(5,998)
EEPS	748	(973)	(225)	596	(710)	(114)
Other plans[a]	274	(578)	(304)	251	(521)	(270)
Retirement benefit obligation	**51,112**	**(60,200)**	**(9,088)**	**43,968**	**(50,350)**	**(6,382)**
Adjustments due to effect of asset ceiling[b]			–			–
Deferred tax asset			1,535			1,147
Net pension obligation			**(7,553)**			**(5,235)**

a Included in the present value of liabilities of other plans is £104m (2015/16: £90m) related to unfunded pension arrangements.
b There is no limiting effect of the asset ceiling as any accounting surplus arising in individual plans is deemed to be recoverable due to the economic benefits available in the form of future refunds or reductions to future contributions.

Included within trade and other payables in the group balance sheet is £15m (2015/16: £10m) in respect of contributions payable to defined contribution plans.

What is IFRIC 14 and how does it impact BT?

For some pension schemes, IFRIC 14 potentially:

- limits the surplus in a pension scheme that can be recognised on the balance sheet; and/or
- requires additional pension liabilities to be recognised where scheduled future deficit contributions are greater than the unadjusted accounting deficit.

BT is not required to limit any pensions surplus or recognise additional pensions liabilities in individual plans as economic benefits are available in the form of either future refunds or reductions to future contributions.

In any event, for both the BTPS and the EEPS, the net present value (using the IAS 19 discount rate) of scheduled future deficit contributions agreed with the schemes' trustee are less than the accounting deficit at 31 March 2017, and therefore IFRIC 14 would have no effect on the figures disclosed.

In 2015, the International Accounting Standards Board (IASB) published an Exposure Draft setting out proposed changes to IFRIC 14. We understand there have been subsequent discussions around further changes by the IFRS Interpretations Committee and a revised version of IFRIC 14 is expected to be published in 2017.

19. Retirement benefit plans continued

Movements in defined benefit plan assets and liabilities

The table below shows the movements on the pension assets and liabilities and shows where they are reflected in the financial statements.

	Assets £m	Liabilities £m	Deficit £m
At 31 March 2015	43,627	(51,210)	(7,583)
Service cost (including administration expenses and PPF levy)	(40)	(261)	(301)
Interest on pension deficit	1,406	(1,627)	(221)
Included in the group income statement			**(522)**
Return on plan assets below the amount included in the group income statement	(423)	–	(423)
Actuarial gain arising from changes in financial assumptions[a]	–	255	255
Actuarial gain arising from changes in demographic assumptions[a]	–	2	2
Actuarial gain arising from experience adjustments[b]	–	921	921
Included in the group statement of comprehensive income			**755**
Regular contributions by employer	226	–	226
Deficit contributions by employer	880	–	880
Included in the group cash flow statement			**1,106**
EEPS position at acquisition	585	(698)	(113)
Contributions by employees	10	(10)	–
Benefits paid	(2,321)	2,321	–
Foreign exchange	18	(43)	(25)
Other movements			**(138)**
At 31 March 2016	**43,968**	**(50,350)**	**(6,382)**
Service cost (including administration expenses and PPF levy)	(44)	(237)	(281)
Interest on pension deficit	1,413	(1,622)	(209)
Included in the group income statement			**(490)**
Return on plan assets above the amount included in the group income statement	7,475	–	7,475
Actuarial loss arising from changes in financial assumptions[a]	–	(10,221)	(10,221)
Actuarial loss arising from changes in demographic assumptions[a]	–	(206)	(206)
Actuarial gain arising from experience adjustments[b]	–	163	163
Included in the group statement of comprehensive income			**(2,789)**
Regular contributions by employer	313	–	313
Deficit contributions by employer	274	–	274
Included in the group cash flow statement			**587**
Contributions by employees	8	(8)	–
Benefits paid	(2,315)	2,315	–
Foreign exchange	20	(34)	(14)
Other movements			**(14)**
At 31 March 2017	**51,112**	**(60,200)**	**(9,088)**

a The actuarial gain or loss arises from changes in the assumptions used to value the defined benefit liabilities at the end of the year compared with the assumptions used at the start of the year. This includes both financial assumptions, which are based on market conditions at the year end, and demographic assumptions such as life expectancy.
b The actuarial loss or gain arising from experience adjustments on defined benefit liabilities represents the impact on the liabilities of differences between actual experience during the year compared with the assumptions made at the start of the year. Such differences might arise, for example, from members choosing different benefit options at retirement, actual salary increases being different from those assumed or actual benefit increases being different to the pension increase assumption.

How do we value our retirement benefit plans?

Valuation methodology

The IAS 19 liabilities are measured as the present value of the estimated future benefit cash flows to be paid by each scheme, calculated using the projected unit credit method. These calculations are performed for the group by professionally qualified independent actuaries.

19. Retirement benefit plans continued

The expected future benefit payments are based on a number of assumptions including future inflation, retirement ages, benefit options chosen and life expectancy and are therefore inherently uncertain. Actual benefit payments in a given year may be higher or lower, for example if members retire sooner or later than assumed, or take a greater or lesser cash lump sum at retirement than assumed.

What are our critical judgements, estimates and assumptions?

The accounting cost of these benefits and the present value of our pension liabilities involve judgements about uncertain events including the life expectancy of the members, the salary progression of our current employees, price inflation and the discount rate used to calculate the net present value of the future pension payments. We use estimates for all of these uncertain events in determining the pension costs and liabilities in our financial statements. Our assumptions reflect historical experience and our judgement regarding future expectations.

We also estimate the fair value of some of our pension assets which are made up of quoted and unquoted investments. The latter require more judgement as their values are not directly observable. The assumptions used in valuing unquoted investments are affected by current market conditions and trends which could result in changes in fair value after the measurement date.

How do we value the assets?

Under IAS 19, plan assets must be valued at the bid market value at the balance sheet date. For the main asset categories:

- Securities listed on recognised stock exchanges are valued at closing bid prices.
- Properties are valued on the basis of open market value.
- Bonds are measured using a combination of broker quotes and pricing models making assumptions for credit risk, market risk and market yield curves.
- Pooled investment vehicles are valued at fair value which is typically the Net Asset Value provided by the investment manager.
- Certain unlisted investments are valued using a model based valuation such as a discounted cash flow.
- The value of the longevity insurance contract held by the BTPS is measured by discounting the projected cash flows payable under the contract (projected by an actuary, consistent with the terms of the contract).

Overview and governance of the BTPS

What is the profile of the BTPS?

At 31 March 2017 there were 296,000 members of the BTPS. Members belong to one of three sections depending upon the date they first joined the BTPS. The membership is analysed below.

Analysis of BTPS

	Active members	Deferred members	Pensioners	Total
Sections A and B liabilities (£bn)[a]	5.5	4.9	32.2	42.6
Section C liabilities (£bn)	7.2	5.3	3.5	16.0
Total IAS 19 liabilities (£bn)	**12.7**	**10.2**	**35.7**	**58.6**
Total number of members	**32,500**	**64,000**	**199,500**	**296,000**

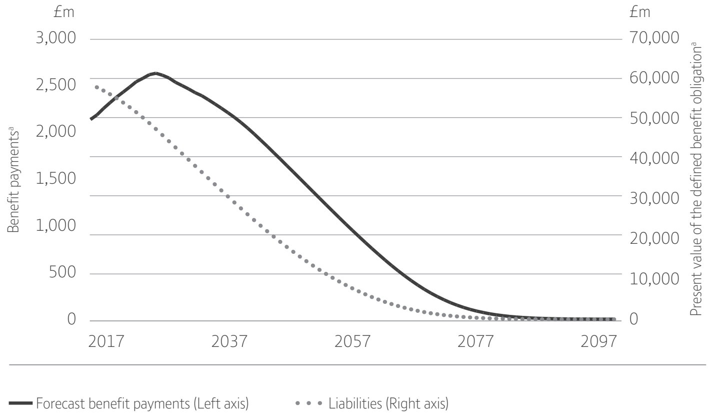
a Sections A and B have been aggregated in this table as Section A members have typically elected to take Section B benefits at retirement.

The estimated duration of the BTPS liabilities, which is an indicator of the weighted average term of the liabilities, is around 16.5 years although the benefits payable by the BTPS are expected to be paid over more than 70 years. Whilst benefit payments are expected to increase over the earlier years, the value of the liabilities is expected to reduce.

19. Retirement benefit plans continued

The chart below illustrates the estimated benefits payable from the BTPS forecast using the IAS 19 assumptions.

Forecast benefits payable by the BTPS at 31 March 2017 (unaudited)



[a] Based on accrued benefits to date.

What are the benefits under the BTPS?

Benefits earned for pensionable service prior to 1 April 2009 are based upon a member's final salary and a normal pensionable age of 60.

Since 1 April 2009, when changes to member benefits and contribution rates were introduced, Section B and C active members have accrued benefits based upon a career average re-valued earnings (CARE) basis and a normal pensionable age of 65. On a CARE basis benefits are built up based upon earnings in each year and the benefit accrued for each year is increased by the lower of inflation or the individual's actual pay increase in each year to retirement.

Under the Scheme rules the determination of the rate of inflation for statutory minimum rates of revaluation and indexation for the majority of benefits is based upon either the Retail Prices Index (RPI) or the Consumer Prices Index (CPI) which apply to each category of member as shown below.

	Active members	Deferred members	Pensioners
Section B[a]	Benefits accrue on a CARE basis increasing at the lower of RPI or the individual's actual pensionable pay increase	Preserved benefits are revalued before retirement based upon CPI	Increases in benefits in payment are currently based upon CPI
Section C			Increases in benefits in payment are currently based upon RPI up to a maximum of 5%

a Section A members have typically elected to take Section B benefits at retirement.

How is the BTPS governed and managed?

BT Pension Scheme Trustees Limited (the Trustee) has been appointed by BT as an independent trustee to administer and manage the BTPS on behalf of the members in accordance with the terms of the BTPS Trust Deed and Rules and relevant legislation (principally the Pension Schemes Act 1993, the Pensions Act 1995 and the Pensions Act 2004).

19. Retirement benefit plans continued

Under the terms of the Trust Deed there are nine Trustee directors, all of whom are appointed by BT, as illustrated below. Trustee directors are usually appointed for a three-year term but are then eligible for re-appointment.

Chairman of the Trustees
Appointed by BT after consultation with, and with the agreement of, the relevant trade unions.

Member nominated Trustees
Appointed by BT based on nominations by trade unions.

Employer nominated Trustees
Appointed by BT. Two normally hold senior positions within the group and two normally hold (or have held) senior positions in commerce or industry.

BTPS assets
Asset allocation

The allocation of assets between different classes of investment is reviewed regularly and is a key factor in the Trustee's investment policy. The allocations set reflect the Trustee's views on the appropriate balance to be struck between seeking returns and incurring risk, and on the extent to which the assets should be distributed to match liabilities. Current market conditions and trends are regularly assessed which may lead to adjustments in the asset allocation.

The fair value of the assets of the BTPS analysed by asset category are shown below. These are subdivided by assets that have a quoted market price in an active market and those that do not (such as investment funds).

		2017[a]			2016[a]		
		Total assets £bn	of which quoted[b] £bn	Total %	Total assets £bn	of which quoted[b] £bn	Total %
Growth							
Equities	Active	2.9	2.1	6	6.5	5.0	15
	Passive	7.4	7.2	15	6.7	6.3	15
	Private Equity	1.9	–	4	1.5	–	4
Property	UK Property	4.1	–	8	4.2	–	10
	Overseas Property	1.7	–	3	1.4	–	3
other growth assets	Absolute Return	2.3	–	5	1.8	–	4
	Non Core Credit	3.5	1.1	7	3.5	1.3	8
	Mature Infrastructure	1.7	–	3	1.1	–	3
Liability matching							
	Government bonds[c]	12.3	12.0	25	10.0	9.9	23
	Corporate bonds	7.6	5.9	15	7.1	5.6	17
Cash, derivatives and other		4.7[d]	n/a	9	(0.7)	n/a	(2)
Total		**50.1**	**28.3**	**100**	43.1	28.1	100

a At 31 March 2017 and 31 March 2016, the Scheme's assets did not include any directly held ordinary shares of the company. The Scheme held £10m (2015/16: £9m) of index-linked bonds issued by the group.
b Assets with a quoted price in an active market.
c Comprises primarily of UK index-linked government bonds.
d Comprises primarily of collateral relating to derivatives held by the Scheme and physical cash of £1.6bn.

19. Retirement benefit plans continued

IAS 19 assumptions

The table below summarises the approach used to set the key IAS 19 assumptions for the BTPS.

	Approach to set the assumption
Discount rate	IAS 19 requires that the discount rate is determined by reference to market yields at the reporting date on high quality corporate bonds. The currency and term of these should be consistent with the currency and estimated term of the pension obligations. The assumption is calculated by applying the projected BTPS benefit cash flows to a corporate bond yield curve constructed based on the yield on AA-rated corporate bonds. In setting the yield curve, judgement is required on the selection of appropriate bonds to be included in the universe and the approach used to then derive the yield curve.
RPI inflation	The approach to set the RPI inflation assumption has been revised at 31 March 2017 to use the entire inflation curve, weighted by projected BTPS benefit cash flows, and making an adjustment for an inflation risk premium (to reflect the extra premium paid by investors for inflation protection), currently 20bps.
CPI inflation	CPI is assessed at a margin below RPI taking into account market forecasts and independent estimates of the expected difference.
Salary increases	Long-term salary increases for BTPS members are assumed to be equal to CPI inflation.
Pension increases	Benefits are assumed to increase in line with the RPI or CPI inflation assumptions, based on the relevant index for increasing benefits, as prescribed by the rules of the BTPS and summarised above.
Longevity	The longevity assumption takes into account: • the actual mortality experience of the BTPS pensioners, based on a formal review conducted at the last triennial valuation; and • future improvements in longevity based on a model published by UK actuarial profession's Continuous Mortality Investigation (using the CMI 2013 Mortality Projections model with a 1.25% per year long-term improvement parameter).

The key financial assumptions used to measure the liabilities of the BTPS are shown below.

	Nominal rates (per year)			Real rates (per year)[a]		
At 31 March	**2017 %**	2016 %	2015 %	**2017 %**	2016 %	2015 %
Rate used to discount liabilities	2.40	3.30	3.25	(0.78)	0.44	0.39
Inflation – increase in RPI	3.20	2.85	2.85	–	–	–
Inflation – increase in CPI	2.00[b]	1.65[c]	1.65[c]	(1.2)[b]	(1.2)[c]	(1.2)[c]

a The real rate is calculated relative to RPI inflation.
b Assumed to be 0.5% higher until 31 March 2019.
c Assumed to be 0.2% higher until 31 March 2017.

The BTPS represents over 97% of the group's retirement benefit obligation. While the financial assumptions may vary for each plan, the nominal financial assumptions weighted by liabilities across all plans are equal to the figures shown in the table above (to the nearest 0.05%).

Based on the IAS 19 longevity assumptions, the forecast life expectancies for BTPS members aged 60 are as follows:

At 31 March	**2017** Number of years	2016 Number of years
Male in lower pay bracket	26.2	26.1
Male in medium pay bracket	27.5	27.4
Male in higher pay bracket	28.9	28.8
Female in lower pay bracket	28.9	28.8
Female in higher pay bracket	29.2	29.1
Average improvement for a member retiring at age 60 in 10 years' time	1.0	1.0

19. Retirement benefit plans continued

Risks underlying the assumptions

The BTPS faces similar risks to other UK DB schemes: future low investment returns, high inflation, longer life expectancy and regulatory changes may all mean the BTPS becomes more of a financial burden. Further details are set out on page 45.

Changes in external factors, such as interest rates, can have an impact on the IAS 19 assumptions, impacting the measurement of BTPS liabilities. These factors can also impact the Scheme assets. The BTPS hedges some of these risks, including longevity and currency using financial instruments and insurance contracts.

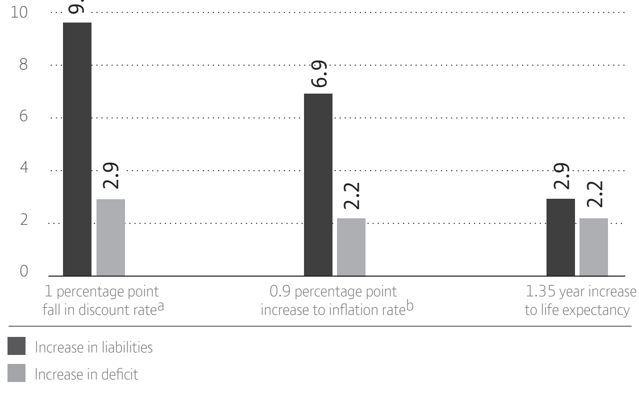
Some of the key financial risks, and mitigations, for the BTPS are set out in the table below.

Changes in bond yields	A fall in yields on AA-rated corporate bonds, used to set the IAS 19 discount rate, will lead to an increase in the IAS 19 liabilities. The BTPS's assets include corporate bonds, government bonds and interest rate derivatives which are expected to partly offset the impact of movements in the discount rate. However, yields on these assets may diverge compared to the discount rate in some scenarios.
Changes in inflation expectations	A significant proportion of the benefits paid to members are currently increased in line with RPI or CPI inflation. An increase in long-term inflation expectations will lead to an increase in the IAS 19 liabilities. The BTPS's assets include index-linked government bonds and inflation derivatives which are expected to partly offset the impact of movements in inflation expectations.
Changes in life expectancy	An increase in the life expectancy of members will result in benefits being paid out for longer, leading to an increase in the BTPS liabilities. The BTPS holds a longevity insurance contract which covers around 25% of the BTPS's total exposure to improvements in longevity, providing long-term protection and income to the BTPS in the event that members live longer than currently expected.

Other risks include volatile asset returns (ie where asset returns differ from the discount rate) and changes in regulation which impact the measurement of the liabilities or value of the assets.

BT's independent actuary has assessed the potential negative impact of the key risks that might occur no more than once in every 20 years. The impact shown under each scenario assumes this is the only change in assumptions – in practice a combination of changes to assumptions could arise.

Sensitivity analysis of the principal assumptions used to measure BTPS liabilities



a Scenario assumes a 1 percentage point fall in the yields on both government and corporate bonds.
b Assuming RPI, CPI, pension increases and salary increases all increase by 0.9 percentage points.

19. Retirement benefit plans continued

The sensitivity of the deficit allows for both the change in the liabilities and the assumed change in the assets. For example, the increase in the deficit under the life expectancy scenario incorporates the expected movement in the value of the insurance contract held to hedge longevity risk.

The sensitivities have been prepared using a similar approach as 2015/16 which involves calculating the liabilities and deficit using the alternative assumptions stated.

BTPS funding

Triennial funding valuation

The triennial valuation is carried out for the Trustee by a professionally qualified independent actuary. The purpose of the valuation is to design a funding plan to ensure that the BTPS has sufficient funds available to meet future benefit payments. The latest funding valuation was performed as at 30 June 2014. The next funding valuation will have an effective date of no later than 30 June 2017.

The valuation methodology for funding purposes, which is based on prudent assumptions, is broadly as follows:

- assets are valued at market value at the valuation date; and
- liabilities are measured on an actuarial funding basis using the projected unit credit method and discounted to their present value.

The results of the two most recent triennial valuations are shown below.

	June 2014 valuation £bn	June 2011 valuation £bn
BTPS liabilities	(47.2)	(40.8)
Market value of BTPS assets	40.2	36.9
Funding deficit	(7.0)	(3.9)
Percentage of accrued benefits covered by BTPS assets at valuation date	85.2%	90.4%
Percentage of accrued benefits on a solvency basis covered by the BTPS assets at the valuation date	63.0%	66.0%

The funding deficit increased to £7.0bn at 30 June 2014. While deficit contribution payments totalling £2.65bn and investment returns of 5.8% per year since the 2011 valuation contributed to higher assets at the 2014 valuation date, the low interest rate environment resulted in a higher value being placed on the BTPS's liabilities which more than offset the increase in the BTPS's assets.

Key assumptions – funding valuation

These valuations were determined using the following prudent long-term assumptions.

	Nominal rates (per year)		Real rates (per year)[a]	
	June 2014 valuation %	June 2011 valuation %	June 2014 valuation %	June 2011 valuation %
Average single equivalent discount rate	4.5	5.2	1.0	2.0
Average long-term increase in RPI	3.5	3.2	–	–
Average long-term increase in CPI	2.5	2.2	(1.0)	(1.0)

[a] The real rate is calculated relative to RPI inflation and is shown as a comparator.

The discount rate at 30 June 2014 was derived from prudent return expectations above a yield curve based on gilt and swap rates. The discount rate reflects views of future returns at the valuation date. This gives a prudent discount rate of 2.1% per year above the yield curve initially, trending down to 0.6% per year above the curve in the long-term. The assumption is equivalent to using a flat discount rate of 4.5% per year.

19. Retirement benefit plans continued

The average life expectancy assumptions at the 2014 valuation date, for members 60 years of age, are as follows.

Number of years from 30 June 2014	June 2014 assumptions	June 2011 assumptions
Male in lower pay bracket	26.1	26.3
Male in medium pay bracket	27.5	28.1
Male in high pay bracket	29.0	
Female in lower pay bracket	28.9	28.7
Female in high pay bracket	29.2	
Average improvement for a member retiring at age 60 in 10 years' time	1.3	1.2

Payments made to the BTPS

Year ended 31 March	**2017** £m	2016 £m
Ordinary contributions	303	215
Deficit contributions	250	875
Total contributions in the year	**553**	**1,090**

Future funding obligations and recovery plan

Under the terms of the Trust Deed, the group is required to have a funding plan, determined at the conclusion of the triennial funding valuation, which is a legal agreement between BT and the Trustee and should address the deficit over a maximum period of 20 years.

In January 2015, the 2014 triennial funding valuation was finalised, agreed with the Trustee and certified by the Scheme Actuary. The funding deficit at 30 June 2014 was £7.0bn. Under the associated recovery plan BT made payments of £875m in March 2015, £625m in April 2015 and £250m in March 2016. BT is scheduled to make future deficit payments in line with the table below.

Year to 31 March	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Deficit contribution (£m)	688	699	711	724	670	670	670	495	495	495	495	495	289

The ordinary contribution rate to meet the benefits of current employed members is:

- 16.0% of pensionable salaries (including employee contributions) from 1 April 2015 through to 30 June 2017 and
- 16.9% of pensionable salaries from 1 July 2017. This will be reviewed as part of the 2017 triennial valuation.

Based on the 2014 funding valuation agreement, the group expects to make contributions of approximately £850m to the BTPS in 2017/18, comprising ordinary contributions of approximately £162m and deficit contributions of £688m. This will be reviewed as part of the 2017 funding valuation.

19. Retirement benefit plans continued

Other protections

The 2014 funding agreement with the Trustee included additional features for BT to provide support to the BTPS. These include:

Feature	Detail
Shareholder distributions	In the event that shareholder distributions exceed an agreed threshold, BT will provide matching payments to the BTPS. The threshold allows for 15% per year dividend per share growth plus £300m per year of share buybacks on a cumulative basis. BT will consult with the Trustee if it considers share buybacks in excess of £300m per year or making a special dividend. These provisions apply from 29 January 2015 until 31 March 2019, or until the finalisation of the next valuation if earlier.
Material corporate events	In the event that BT generates net cash proceeds greater than £1bn from disposals (net of acquisitions) in any 12-month period ending 30 June, BT will make additional contributions to the BTPS equal to one third of those net cash proceeds. BT will consult with the Trustee if: • it considers making acquisitions with a total cost of more than £1bn in any 12-month period; or • it considers making disposals of more than £1bn; or • it considers making a Class 1 transaction (acquisition or disposal) which will have a material impact on the BTPS; or • it becomes aware it is likely to be subject to a takeover offer. BT will advise the Trustee should there be other material corporate events which would materially impact BT's covenant to the BTPS. These provisions apply from 29 January 2015 until 31 March 2019, or until the finalisation of the next valuation if earlier.
Negative pledge	A negative pledge that future creditors will not be granted superior security to the BTPS in excess of a £1.5bn threshold, to cover both British Telecommunications plc and BT group plc. This provision applies until the deficit reduces to below £2.0bn at any subsequent funding valuation.

In the highly unlikely event that the group were to become insolvent there are additional protections of BTPS members' benefits:

Feature	Detail
Crown Guarantee	The Crown guarantee was granted by the government when the group was privatised in 1984 and would only come into effect upon the insolvency of BT. The Trustee brought court proceedings to clarify the scope and extent of the Crown guarantee. The Court of Appeal judgment on 16 July 2014 established that: • the Crown guarantee covers BT's funding obligation in relation to the benefits of members of the BTPS who joined post-privatisation as well as those who joined pre-privatisation (subject to certain exceptions); • the funding obligation to which the Crown guarantee relates is measured with reference to BT's obligation to pay deficit contributions under the rules of the BTPS. The Crown guarantee is not taken into account for the purposes of the actuarial valuation of the BTPS and is an entirely separate matter, only being relevant in the highly unlikely event that BT became insolvent.
Pension Protection Fund (PPF)	The Pension Protection Fund (PPF) may take over the BTPS and pay benefits not covered by the Crown guarantee to members. There are limits on the amounts paid by the PPF and the PPF would not provide exactly the same benefits as those provided under the BTPS Rules.

19. Retirement benefit plans continued

Other benefit plans

In addition to the BTPS, the group maintains benefit plans around the world with a focus on these being appropriate for the local market and culture.

EE Pension Scheme (EEPS)

The EEPS is the second largest defined benefit plan sponsored by the group with defined benefit liabilities of around £1bn. The EEPS also has a defined contribution section with around 11,000 active members.

The defined benefit section's assets are invested across a number of asset classes including global equities (27%), property (19%), an absolute return portfolio (27%) and a liability driven investment portfolio (27%).

The triennial valuation of the defined benefit section was performed as at 31 December 2015, and agreed in March 2017. This showed a funding deficit of £141m. To meet the deficit, the group will contribute:

- c£1.667m each month until March 2018 (inclusive); and
- £1.875m each month thereafter until November 2020.

The next funding valuation will have an effective date of no later than 31 December 2018.

Other schemes

The BT Retirement Saving Scheme (BTRSS) is the largest defined contribution scheme maintained by the group with around 32,500 active members. In the year to 31 March 2017, the group contributed £139m to the BTRSS.

20. Share-based payments

What share incentive arrangements do we have?

Our plans include savings-related share option plans for employees and those of participating subsidiaries, further share option plans for selected employees and a stock purchase plan for employees in the US. We also have several share plans for executives. All share-based payment plans are equity-settled. Details of these plans and an analysis of the total charge by type of award is set out below.

Year ended 31 March	**2017 £m**	2016 £m	2015 £m
Employee Saveshare Plans	40	27	25
Executive Share Plans:			
Incentive Share Plan (ISP)	–	21	32
Deferred Bonus Plan (DBP)	9	4	9
Other plans	8	6	4
	57	**58**	**70**

Employee Saveshare Plans

Under an HMRC-approved savings-related share option plan, employees save on a monthly basis, over a three or five-year period, towards the purchase of shares at a fixed price determined when the option is granted. This price is usually set at a 20% discount to the market price for five-year plans and 10% for three-year plans. The options must be exercised within six months of maturity of the savings contract, otherwise they lapse. Similar plans operate for our overseas employees.

Incentive Share Plan (ISP)

Under the ISP, participants are only entitled to these shares in full at the end of a three-year period if the company has met the relevant predetermined corporate performance measures and if the participants are still employed by the group. For ISP awards granted in 2016/17, 2015/16 and 2014/15: 40% of each award is linked to a total shareholder return (TSR) target for a comparator group of companies from the beginning of the relevant performance period; 40% is linked to a three-year cumulative free cash flow measure, and 20% to growth in underlying revenue excluding transit.

Deferred Bonus Plan (DBP)

Under the DBP, awards are granted annually to selected employees. Shares in the company are transferred to participants at the end of three years if they continue to be employed by the group throughout that period.

Under the terms of the ISP and DBP, dividends or dividend equivalents earned on shares during the conditional periods are reinvested in company shares for the potential benefit of the participants.

20. Share-based payments continued

Employee Saveshare Plans

Movements in Employee Saveshare options are shown below.

Year ended 31 March	Movement in the number of share options 2017 millions	2016 millions	2015 millions	Weighted average exercise price 2017 pence	2016 pence	2015 pence
Outstanding at 1 April	197	226	459	287	226	102
Granted	44	47	81	362	385	326
Forfeited	(18)	(12)	(9)	345	306	239
Exercised	(33)	(63)	(304)	208	139	65
Expired	(1)	(1)	(1)	345	247	163
Outstanding at 31 March	**189**	**197**	**226**	**313**	**287**	**226**
Exercisable at 31 March	–	–	–	237	140	74

The weighted average share price for all options exercised during 2016/17 was 357p (2015/16: 463p, 2014/15: 382p).

The following table summarises information relating to options outstanding and exercisable under Employee Saveshare plans at 31 March 2017.

Normal dates of vesting and exercise (based on calendar years)	Exercise price per share	Weighted average exercise price	Number of outstanding options millions	Weighted average remaining contractual life
2017	168p – 359p	228p	45	8 months
2018	249p – 423p	310p	31	21 months
2019	319p – 397p	236p	66	33 months
2020	376p	376p	25	44 months
2021	353p	353p	22	56 months
Total		**313p**	**189**	**29 months**

Executive share plans

Movements in executive share plan awards during 2016/17 are shown below:

	Number of shares (millions) ISP	DBP	Other	Total
At 1 April 2016	43	8	–	51
Awards granted	18	2	4	24
Awards vested	(12)	(3)	–	(15)
Awards lapsed	(5)	–	–	(5)
Dividend shares reinvested	1	–	–	1
At 31 March 2017	**45**	**7**	**4**	**56**

Fair values

The following table summarises the fair values and key assumptions used for valuing grants made under the Employee Saveshare plans and ISP in 2016/17, 2015/16 and 2014/15.

	2017		2016		2015	
Year ended 31 March	Employee Saveshare	ISP	Employee Saveshare	ISP	Employee Saveshare	ISP
Weighted average fair value	72p	328p	81p	364p	82p	309p
Weighted average share price	422p	426p	454p	451p	387p	393p
Weighted average exercise price	362p	n/a	385p	n/a	326p	n/a
Expected dividend yield	2.9% – 3.4%	n/a	3.2% – 3.7%	n/a	3.5% – 3.8%	n/a
Risk free rates	0.5% – 0.8%	0.6%	0.7% – 1.6%	0.7%	1.2% – 2.0%	1.2%
Expected volatility	19.0% – 21.5%	21.8%	19.7% – 22.7%	22.0%	22.2% – 24.9%	24.3%

Employee Saveshare grants are valued using a Binomial options pricing model. Awards under the ISP are valued using Monte Carlo simulations. TSRs are generated for BT and the comparator group at the end of the three-year performance period, using each company's volatility and the cross correlation between pairs of stocks.

20. Share-based payments continued

Volatility has been determined by reference to BT's historical volatility which is expected to reflect the BT share price in the future. An expected life of three months after vesting date is assumed for Employee Saveshare options. For all other awards the expected life is equal to the vesting period. The risk-free interest rate is based on the UK gilt curve in effect at the time of the grant, for the expected life of the option or award.

The fair values for the DBP were determined using the market price of the shares at the grant date. The weighted average share price for DBP awards granted in 2016/17 was 421p (2015/16: 451p, 2014/15: 393p).

21. Investments

At 31 March	**2017 £m**	2016 £m	2015 £m
Non-current assets			
Available-for-sale	37	39	36
Amounts owed by ultimate parent company	1,371	1,409	1,307
Amounts owed by parent company	10,191	10,510	18,263
Fair value through profit or loss	7	7	8
	11,606	**11,965**	**19,614**
Current assets			
Available-for-sale	1,437	2,878	3,133
Amounts owed by ultimate parent company	28	26	3
Amounts owed by parent company	192	327	45
Loans and receivables	83	40	390
	1,740	**3,271**	**3,571**

Loans and receivables are held on the balance sheet at amortised cost and this approximates fair value. Loans and receivables consist of investments in term deposits denominated in Sterling of £35m (2015/16: £10m, 2014/15: £360m), in US Dollars of £30m (2015/16: £30m, 2014/15: £30m), and in other currencies of £18m (2015/16: £nil, 2014/15: £nil).

Fair value hierarchy At 31 March 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total held at fair value £m
Non-current and current investments				
Available-for-sale investments	21	1,437	16	1,474
Fair value through profit or loss	7	–	–	7
Total	**28**	**1,437**	**16**	**1,481**

At 31 March 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total held at fair value £m
Non-current and current investments				
Available-for-sale investments	24	2,878	15	2,917
Fair value through profit or loss	7	–	–	7
Total	**31**	**2,878**	**15**	**2,924**

At 31 March 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total held at fair value £m
Non-current and current investments				
Available-for-sale investments	26	3,133	10	3,169
Fair value through profit or loss	8	–	–	8
Total	**34**	**3,133**	**10**	**3,177**

The three levels of valuation methodology used are:

Level 1 – uses quoted prices in active markets for identical assets or liabilities
Level 2 – uses inputs for the asset or liability other than quoted prices, that are observable either directly or indirectly
Level 3 – uses inputs for the asset or liability that are not based on observable market data, such as internal models or other valuation method.

21. Investments continued

Level 2 balances classified as available-for-sale consist of investments in liquidity funds denominated in Sterling of £900m (2015/16: £2,430m, 2014/15: £2,784) and in Euros of £537m (2015/16: £448m, 2014/15: £349m).

Level 3 balances consist of available-for-sale investments of £16m (2015/16: £15m) (2014/15: £10m) which represent investments in a number of private companies. In the absence of specific market data, these investments are held at cost, adjusted as necessary for impairments, which approximates to fair value.

22. Cash and cash equivalents

At 31 March	**2017 £m**	2016 £m	2015 £m
Cash at bank and in hand	**467**	**893**	**744**
Cash equivalents			
Loans and receivables			
US deposits	32	44	28
UK deposits	1	20	28
Other deposits	26	32	43
Total cash equivalents	**59**	**96**	**99**
Total cash and cash equivalents	**526**	**989**	**843**
Bank overdrafts (note 23)	(17)	(537)	(441)
Cash and cash equivalents per the cash flow statement	**509**	**452**	**402**

The group's cash and cash equivalents included restricted cash of £43m (2015/16: £51m, 2014/15: £82m), of which £41m (2015/16: £44m, 2014/15: £73m) was held in countries where local capital or exchange controls currently prevents us from accessing cash balances. The remaining balance of £2m (2015/16: £7m, 2014/15: £9m) was held in escrow accounts, or in commercial arrangements akin to escrow.

The classification of the items noted above represents a change in our definition of restricted cash. We previously included in our definition cash held in countries where capital or exchange controls imposed local compliance obligations upon the group. Upon further review, we have concluded these controls do not necessarily restrict access providing these obligations are satisfied. We now also include cash balances held in arrangements akin to escrow as well as balances physically held in escrow accounts. We have updated the comparative balances to reflect this change by reducing reported restricted cash by £50m in 2015/16 and £61m in 2014/15.

Cash and cash equivalents are classified as loans and receivables and are held on the balance sheet at amortised cost which equates to fair value.

23. Loans and other borrowings

Capital management policy

The capital structure is managed by BT Group plc, the ultimate parent of the group.

Its capital management policy is set out in the **Report of the Directors** on page 99.

23. Loans and other borrowings continued
Loans and borrowings

At 31 March	2017 £m	2016 £m	2015 £m
2.00% US$750m bond due June 2015[a]	–	–	508
6.50% £1,000m bond due July 2015[a]	–	–	758
1.625% US$600m bond due June 2016[a]	–	419	406
8.50% £683m bond due December 2016 (minimum 7.50%[b])	–	696	695
3.5% €500m bond due February 2017[a]	–	398	–
1.25% US$500m bond due February 2017[a]	–	348	337
6.625% £500m bond due June 2017[a]	526	525	525
5.95% US$1,100m bond due January 2018[a]	891	775	750
3.5% €600m bond due August 2018[a]	539	510	–
2.35% US$800m bond due February 2019[a]	642	558	541
4.38% £450m bond due March 2019	460	464	–
1.125% €1,000m bond due June 2019	863	800	730
8.625% £300m bond due March 2020	300	300	299
0.625% €1,500m bond due March 2021[a]	1,282	1,190	–
1.125% €1,100m bond due March 2023[a]	942	873	–
3.50% £250m index linked bond due April 2025	403	396	392
1.75% €1,300m bond due March 2026[a]	1,113	1,032	–
5.75% £600m bond due December 2028	731	741	751
9.125% US$2,670m bond due December 2030[a] (minimum 8.625%[b])	2,191	1,910	1,850
6.375% £500m bond due June 2037[a]	522	522	522
Total listed bonds	**11,405**	**12,457**	**9,064**
Finance leases	**229**	**233**	**232**
LIBOR+ 0.95% £438m syndicated loan facilities due April 2016	–	438	–
2.21% £350m bank loan due December 2017	352	354	–
Acquisition facility	–	181	–
Other loans	710	561	439
Bank overdrafts (note 22)	17	537	441
Amounts due to ultimate parent company[c]	1,183	1,024	1,004
Total other loans and borrowings	**2,262**	**3,095**	**1,884**
Total loans and borrowings	**13,896**	**15,785**	**11,180**

a Designated in a cash flow hedge relationship.
b The interest rate payable on this bond attracts an additional 0.25% for a downgrade by one credit rating by either Moody's or S&P to the group's senior unsecured debt below A3/A-respectively. In addition, if Moody's or S&P subsequently increase the ratings then the interest rate will be decreased by 0.25% for each rating category upgrade by each rating agency. In no event will the interest rate be reduced below the minimum rate reflected in the above table.
c Amounts due to ultimate parent company are denominated in Sterling and incur a floating rate of interest based on LIBOR.

Unless previously designated in a fair value hedge relationship, all loans and other borrowings are carried on our balance sheet and in the table above at amortised cost. The fair value of listed bonds and other long-term borrowings is £13,496m (2015/16: £14,500m, 2014/15: £10,919m) and the fair value of finance leases is £273m (2015/16: £284m, 2014/15: £268m).

The fair value of the group's bonds and other long-term borrowings is estimated on the basis of quoted market prices, based on the same or similar issues, where they exist. Where the same or similar issues do not exist, the fair value is estimated based on the calculation of future cash flows using blended discount rates in effect at the balance sheet date.

The carrying amount of other loans and bank overdrafts equates to fair value due to the short maturity of these items.

The interest rates payable on loans and borrowings disclosed above reflect the coupons on the underlying issued loans and borrowings and not the interest rates achieved through applying associated cross-currency and interest rate swaps in hedge arrangements.

23. Loans and other borrowings continued

Loans and other borrowings are analysed as follows:

At 31 March	2017 £m	2016 £m	2015 £m
Current liabilities			
Listed bonds	1,539	2,013	1,422
Finance leases	15	8	13
Bank loans	352	–	–
Syndicated facilities	–	619	–
Other loans and bank overdrafts	726	1,096	879
Amount due to ultimate parent company	159	20	2
Total current liabilities	**2,791**	**3,756**	**2,316**
Non-current liabilities			
Listed bonds	9,866	10,444	7,642
Finance leases	214	225	219
Bank loans	–	354	–
Other loans	1	2	1
Amounts due to ultimate parent company	1,024	1,004	1,002
Total non-current liabilities	**11,105**	**12,029**	**8,864**
Total	**13,896**	**15,785**	**11,180**

The carrying values disclosed in the above table reflect balances at amortised cost adjusted for accrued interest and current fair value adjustments to the relevant loans or borrowings. These do not reflect the final principal repayments that will arise after taking account of the relevant derivatives in hedging relationships which are reflected in the table below. Apart from finance leases, all borrowings as at 31 March 2017, 31 March 2016 and 31 March 2015 were unsecured.

The principal repayments of loans and borrowings at hedged rates amounted to £12,138m (2015/16: £14,756m, 2014/15: £10,486m) and repayments fall due as follows:

	2017			2016			2015		
At 31 March	Carrying amount £m	Effect of hedging and interest £m	Principal repayments at hedged rates £m	Carrying amount £m	Effect of hedging and interest £m	Principal repayments at hedged rates £m	Carrying amount £m	Effect of hedging and interest £m	Principal repayments at hedged rates £m
Within one year, or on demand	**2,791**	**(523)**	**2,268**	**3,756**	**(252)**	**3,504**	**2,316**	**(152)**	**2,164**
Between one and two years	1,614	(197)	1,417	1,632	(216)	1,416	1,431	(48)	1,383
Between two and three years	1,166	(43)	1,123	1,488	(72)	1,416	1,251	(191)	1,060
Between three and four years	1,295	(121)	1,174	1,103	18	1,121	549	(51)	498
Between four and five years	12	–	12	1,199	(26)	1,173	1,031	89	1,120
After five years	6,868	(724)	6,144	6,428	(302)	6,126	4,459	(198)	4,261
Total due for repayment after more than one year	**10,955**	**(1,085)**	**9,870**	**11,850**	**(598)**	**11,252**	**8,721**	**(399)**	**8,322**
Total repayments	**13,746**	**(1,608)**	**12,138**	**15,606**	**(850)**	**14,756**	**11,037**	**(551)**	**10,486**
Fair value adjustments	150			179			143		
Total loans and other borrowings	**13,896**			**15,785**			**11,180**		

23. Loans and other borrowings continued

Obligations under finance leases are analysed as follows:

At 31 March	2017	2016	2015	2017	2016	2015
	Minimum lease payments			Repayment of outstanding lease obligations		
	£m	£m	£m	£m	£m	£m
Amounts payable under finance leases:						
Within one year	29	13	29	14	8	13
In the second to fifth years inclusive	102	105	100	50	51	45
After five years	237	265	264	165	174	174
	368	**383**	**393**	**229**	**233**	**232**
Less: future finance charges	(139)	(150)	(161)	–	–	–
Total finance lease obligations	**229**	**233**	**232**	**229**	**233**	**232**

Assets held under finance leases mainly consist of buildings and network assets. The group's obligations under finance leases are secured by the lessors' title to the leased assets.

24. Finance expense and income

Year ended 31 March	2017 £m	2016 £m	2015 £m
Finance expense			
Interest on:			
Financial liabilities at amortised cost and associated derivatives	567	489	516
Finance leases	15	14	15
Derivatives	12	11	7
Fair value movements:			
Bonds designated as hedged items in fair value hedges	–	–	82
Derivatives designated as hedging instruments in fair value hedges	–	–	(82)
Derivatives not in a designated hedge relationship	(2)	(5)	7
Reclassification of cash flow hedge from other comprehensive income	(1)	3	26
Unwinding of discount on provisions	16	8	8
Interest payable on ultimate parent company borrowings	25	20	2
Finance expense	632	540	581
Less: interest capitalised[a]	–	–	(2)
Total finance expense before specific items	**632**	**540**	**579**
Specific items (note 8)	210	229	299
Total finance expense	**842**	**769**	**878**

a No interest was capitalised in 2016/17 or 2015/16. Interest was capitalised at a weighted average rate of 6.0% in 2014/15.

Year ended 31 March	2017 £m	2016 £m	2015 £m
Finance income			
Interest on available-for-sale investments	6	8	8
Interest on loans and receivables	7	6	9
Other interest and similar income	–	23	–
Interest income on loans to immediate and ultimate parent company	219	352	218
Total finance income	**232**	**389**	**235**

Year ended 31 March	2017 £m	2016 £m	2015 £m
Net finance expense before specific items	**400**	**151**	**344**
Specific items (note 8)	210	229	299
Net finance expense	**610**	**380**	**643**

25. Financial instruments and risk management

Risk management is performed by BT Group plc, the ultimate parent company.

The group issues or holds financial instruments mainly to finance its operations; to finance corporate transactions such as dividends, share buybacks and acquisitions; for the temporary investment of short-term funds; and to manage currency and interest rate risks arising from its operations and from its sources of finance. In addition, various financial instruments, for example trade receivables and trade payables, arise directly from the group's operations.

Financial risk management

The group's activities expose us to a variety of financial risks: market risk (including interest rate risk and foreign exchange risk), credit risk and liquidity risk.

Treasury operations

The group has a centralised treasury operation whose primary role is to manage liquidity and funding requirements as well as our exposure to associated financial and market risks, including credit risk, interest rate risk and foreign exchange risk.

Treasury policy

Treasury policy is set by the BT Group plc Board. Group treasury activities are subject to a set of controls appropriate for the magnitude of borrowing, investments and group-wide exposures. The BT Group plc Board has delegated authority to operate these policies to a series of panels responsible for the management of key treasury risks and operations. Appointment to and removal from the key panels requires approval from two of the following: the chairman, the chief executive or the group finance director BT Group plc.

There has been no change in the nature of the group's risk profile between 31 March 2017 and the date of approval of these financial statements.

Interest rate risk management

Management policy

Interest rate risk arises primarily from the group's long-term borrowings. Interest cash flow risk arises from borrowings issued at variable rates, partially offset by cash held at variable rates. Fair value interest rate risk arises from borrowings issued at fixed rates.

The group's policy, as set by the BT Group plc Board, is to ensure that at least 70% of BT Group plc's ongoing consolidated net debt is at fixed rates. Short-term interest rate management is delegated to the treasury operation while long-term interest rate management decisions require further approval by the BT Group plc group finance director, director of treasury and risk management or the group treasurer who each have been delegated such authority from the BT Group plc Board.

Hedging strategy

In order to manage the group's interest rate profile, the group has entered into cross-currency and interest rate swap agreements to vary the amounts and periods for which interest rates on borrowings are fixed. The duration of the swap agreements matches the duration of the debt instruments. The majority of the group's long-term borrowings have been, and are, subject to fixed Sterling interest rates after applying the impact of these hedging instruments.

Foreign exchange risk management

Management policy

Foreign currency hedging activities protect the group from the risk that changes in exchange rates will adversely affect future net cashflows.

The BT Group plc Board's policy for foreign exchange risk management defines the types of transactions typically covered, including significant operational, funding and currency interest exposures, and the period over which cover should extend for each type of transaction.

Short-term foreign exchange management has been delegated to the treasury operation whilst long-term foreign exchange management decisions require further approval from the BT Group plc group finance director, director of treasury and risk management or the group treasurer.

25. Financial instruments and risk management continued

Hedging strategy

A significant proportion of the group's external revenue and costs arise within the UK and are denominated in Sterling. Non-UK operations generally trade and are funded in their functional currency which limits their exposure to foreign exchange volatility.

The group enters into forward currency contracts to hedge foreign currency, capital purchases, purchase and sale commitments, interest expense and foreign currency investments. The commitments hedged are principally denominated in US Dollar, Euro and Asia Pacific region currencies. As a result, exposure to foreign currency arises mainly on non-UK subsidiary investments and on residual currency trading flows.

The group uses cross-currency swaps to swap foreign currency borrowings into Sterling.

The table below reflects the currency and interest rate profile of the group's loans and borrowings after the impact of hedging.

	2017			2016			2015		
At 31 March	Fixed rate interest £m	Floating rate interest £m	Total £m	Fixed rate interest £m	Floating rate interest £m	Total £m	Fixed rate interest £m	Floating rate interest £m	Total £m
Sterling	9,633	1,864	11,497	11,417	2,752	14,169	7,601	2,409	10,010
Euro	–	641	641	–	587	587	–	476	476
Total	**9,633**	**2,505**	**12,138**	**11,417**	**3,339**	**14,756**	**7,601**	**2,885**	**10,486**
Ratio of fixed to floating	79%	21%	100%	77%	23%	100%	72%	28%	100%
Weighted average effective fixed interest rate – Sterling	4.9%			6.0%			6.3%		

The floating rate loans and borrowings bear interest rates fixed in advance for periods ranging from one day to one year, primarily by reference to LIBOR quoted rates.

Sensitivity analysis

The income statement and shareholders' equity are exposed to volatility arising from changes in interest rates and foreign exchange rates. To demonstrate this volatility, management have concluded that the following are reasonable benchmarks for performing sensitivity analysis:

- for interest, a 1% increase in interest rates and parallel shift in yield curves across Sterling, US Dollar and Euro currencies; and
- for foreign exchange, a 10% strengthening/weakening in Sterling against other currencies.

The impact on the group's annual net finance expense of a 1% increase in interest rates would be a decrease of £108m (2015/16: £123m, 2014/15: £200m). The impact on equity, before tax, of a 1% increase in interest rates is as detailed below:

At 31 March	**2017 £m Increase (Reduce)**	2016 £m Increase (Reduce)	2015 £m Increase (Reduce)
Sterling interest rates	554	626	428
US Dollar interest rates	(348)	(374)	(400)
Euro interest rates	(229)	(263)	(34)

A 1% decrease in interest rates would have broadly the same impact in the opposite direction.

The group's exposure to foreign exchange volatility in the income statement, after hedging, and within shareholders' equity (excluding translation exposures) was insignificant in 2016/17, 2015/16, and 2014/15.

Credit ratings

BT Group plc continues to target a BBB+/Baa1 credit ratings over the medium term. The group regularly reviews the liquidity of the group and its funding strategy takes account of medium-term requirements. These include the pension deficit and shareholder distribution.

The group's December 2030 bond contains covenants which require the group to pay higher rates of interest since the group's credit rating fell below A3 in the case of Moody's or A- in the case of Standard & Poor's (S&P). Additional

25. Financial instruments and risk management continued
interest of 0.25% per year accrues for each ratings category downgrade by each agency below those levels effective from the next coupon date following a downgrade. Based on the total notional value of debt outstanding of £2.1bn at 31 March 2017, the group's finance expense would increase/decrease by approximately £11m a year if BT Group plc's credit rating were to be downgraded/upgraded, respectively, by one credit rating category by both agencies.

Our credit ratings were as detailed below:

	2017		2016		2015	
At 31 March	**Rating**	Outlook	Rating	Outlook	Rating	Outlook
Rating agency						
Moody's	Baa1	Negative	Baa2	Positive	Baa2	Positive
Standard & Poor's	BBB+	Negative	BBB	Positive	BBB	Stable

Liquidity risk management
Management policy
The group maintains liquidity by entering into short and long-term financial instruments to support operational and other funding requirements, determined using short and long-term cash forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding adequacy for at least a 12-month period. On at least an annual basis the BT Group plc Board reviews and approves the long-term funding requirements of the group and on an ongoing basis considers any related matters. Refinancing risk is managed by limiting the amount of borrowing that matures within any specified period and having appropriate strategies in place to manage refinancing needs as they arise. The maturity profile of the group's loans and borrowings at 31 March 2017 is disclosed in note 23. The group has term debt maturities of £1.8bn in 2017/18.

The treasury operation reviews and manages short term requirements within the parameters of the policies set by the BT Group plc Board. The group holds cash, cash equivalents and current investments in order to manage short-term liquidity requirements. At 31 March 2017 the group had undrawn committed borrowing facilities of £2.1bn (2015/16: £1.5bn, 2014/15: £1.5bn) maturing in September 2021. The group also has an undrawn 364-day revolving bridge facility of £1.5bn maturing in March 2018, with the option to renew to March 2019. The bridge facility contains mandatory prepayment and cancellation clauses in certain circumstances, such as the issuance of public debt securities.

Maturity analysis
The following table provides an analysis of the remaining contractually-agreed cash flows including interest payable for the group's non-derivative financial liabilities on an undiscounted basis, which therefore differs from both the carrying value and fair value.

Non-derivative financial liabilities At 31 March 2017	Loans and other borrowings £m	Interest on loans and other borrowings £m	Trade and other payables £m	Provisions £m	Total £m
Due within one year	2,602	532	5,298	62	8,494
Between one and two years	1,614	415	–	41	2,070
Between two and three years	1,166	364	–	21	1,551
Between three and four years	1,295	327	–	18	1,640
Between four and five years	12	319	–	17	348
After five years	6,868	2,726	–	310	9,904
	13,557	**4,683**	**5,298**	**469**	**24,007**
Interest payments not yet accrued	-	(4,494)	–	–	(4,494)
Fair value adjustment[a]	150	–	–	–	150
Impact of discounting	-	–	–	(177)	(177)
Carrying value on the balance sheet[a]	**13,707**	**189**	**5,298**	**292**	**19,486**

25. Financial instruments and risk management continued

At 31 March 2016	Loans and other borrowings £m	Interest on loans and other borrowings £m	Trade and other payables £m	Provisions £m	Total £m
Due within one year	3,558	513	5,346	50	9,467
Between one and two years	1,632	435	–	30	2,097
Between two and three years	1,488	357	–	25	1,870
Between three and four years	1,103	343	–	15	1,461
Between four and five years	1,199	308	–	16	1,523
After five years	6,428	2,885	–	326	9,639
	15,408	**4,841**	**5,346**	**462**	**26,057**
Interest payments not yet accrued	–	(4,643)	–	–	(4,643)
Fair value adjustment	179	–	–	–	179
Impact of discounting	–	–	–	(166)	(166)
Carrying value on the balance sheet[a]	**15,587**	**198**	**5,346**	**296**	**21,427**

At 31 March 2015	Loans and other borrowings £m	Interest on loans and other borrowings £m	Trade and other payables £m	Provisions £m	Total £m
Due within one year	2,120	515	3,875	32	6,542
Between one and two years	1,431	458	–	19	1,908
Between two and three years	1,251	392	–	15	1,658
Between three and four years	549	315	–	15	879
Between four and five years	1,031	302	–	13	1,346
After five years	4,459	2,973	–	218	7,650
	10,841	**4,955**	**3,875**	**312**	**19,983**
Interest payments not yet accrued	–	(4,759)	–	–	(4,759)
Fair value adjustment	143	–	–	–	143
Impact of discounting	–	–	–	(104)	(104)
Carrying value on the balance sheet[a]	**10,984**	**196**	**3,875**	**208**	**15,263**

a Foreign currency-related cash flows were translated at closing rates as at the relevant reporting date. Future variable interest rate cash flows were calculated using the most recent rate applied at the relevant balance sheet date.

Trade and other payables are held at amortised cost. The carrying amount of these balances approximates to fair value due to the short maturity of amounts payable.

The following table provides an analysis of the contractually agreed cash flows in respect of the group's derivative financial instruments. Cash flows are presented on a net or gross basis in accordance with the settlement arrangements of the instruments.

	Derivatives – Analysed by earliest payment date[a]				Derivatives – Analysed based on holding instrument to maturity			
Derivative financial liabilities At 31 March 2017	Net settled £m	Gross settled outflows £m	Gross settled inflows £m	Total £m	Net settled £m	Gross settled outflows £m	Gross settled inflows £m	Total £m
Due within one year	291	582	(576)	297	92	582	(576)	98
Between one and two years	296	1,139	(1,097)	338	92	1,139	(1,097)	134
Between two and three years	198	–	–	198	92	–	–	92
Between three and four years	114	–	–	114	88	–	–	88
Between four and five years	104	–	–	104	83	–	–	83
After five years	123	–	–	123	679	–	–	679
Total[b]	**1,126**	**1,721**	**(1,673)**	**1,174**	**1,126**	**1,721**	**(1,673)**	**1,174**

25. Financial instruments and risk management continued

At 31 March 2016	Derivatives – Analysed by earliest payment date[a] Net settled £m	Gross settled outflows £m	Gross settled inflows £m	Total £m	Derivatives – Analysed based on holding instrument to maturity Net settled £m	Gross settled outflows £m	Gross settled inflows £m	Total £m
Due within one year	268	263	(250)	281	91	263	(250)	104
Between one and two years	386	38	(27)	397	88	38	(27)	99
Between two and three years	371	38	(27)	382	88	38	(27)	99
Between three and four years	60	838	(836)	62	90	838	(836)	92
Between four and five years	81	17	(18)	80	84	17	(18)	83
After five years	–	165	(180)	(15)	725	165	(180)	710
Total[b]	**1,166**	**1,359**	**(1,338)**	**1,187**	**1,166**	**1,359**	**(1,338)**	**1,187**

At 31 March 2015	Derivatives – Analysed by earliest payment date[a] Net settled £m	Gross settled outflows £m	Gross settled inflows £m	Total £m	Derivatives – Analysed based on holding instrument to maturity Net settled £m	Gross settled outflows £m	Gross settled inflows £m	Total £m
Due within one year	215	1,421	(1,292)	344	88	1,320	(1,179)	229
Between one and two years	471	39	(26)	484	109	42	(30)	121
Between two and three years	273	38	(26)	285	92	42	(30)	104
Between three and four years	177	38	(26)	189	94	42	(30)	106
Between four and five years	48	838	(749)	137	111	842	(753)	200
After five years	–	390	(394)	(4)	690	476	(491)	675
Total[b]	**1,184**	**2,764**	**(2,513)**	**1,435**	**1,184**	**2,764**	**(2,513)**	**1,435**

a Certain derivative financial instruments contain break clauses whereby either the group or bank counterparty can terminate the swap on certain dates and the mark to market position is settled in cash.
b Foreign currency-related cash flows were translated at closing rates as at the relevant reporting date. Future variable interest rate cash flows were calculated using the most recent rate applied at the relevant balance sheet date.

Credit risk management

Management policy

The group's exposure to credit risk arises from financial assets transacted by the treasury operation (primarily derivatives, investments, cash and cash equivalents) and from its trading-related receivables.

For treasury-related balances, the BT Group plc Board's defined policy restricts exposure to any one counterparty by setting credit limits based on the credit quality as defined by Moody's and S&P. The minimum credit ratings permitted with counterparties in respect of new transactions are A3/A- for long-term and P1/A1 for short-term investments. If counterparties, in respect of existing transactions fall below the permitted criteria, the group will take action where appropriate

The treasury operation continuously reviews the limits applied to counterparties and will adjust the limit according to the nature and credit standing of the counterparty, and in response to market conditions, up to the maximum allowable limit set by the BT Group plc Board.

Operational management policy

The group's credit policy for trading-related financial assets is applied and managed by each of the lines of business to ensure compliance. The policy requires that the creditworthiness and financial strength of customers are assessed at inception and on an ongoing basis. Payment terms are set in accordance with industry standards. Where appropriate, the group may endeavour to minimise risks by requesting securities such as deposits, guarantees and letters of credit. The group takes proactive steps including constantly reviewing credit ratings of relationship banks to minimise the impact of adverse market conditions on trading-related financial assets.

25. Financial instruments and risk management continued

Exposures

The maximum credit risk exposure of the group's financial assets at the balance sheet date is as follows:

At 31 March	Notes	2017 £m	2016 £m	2015 £m
Derivative financial assets		2,246	1,639	1,329
Investments	21	13,346	15,236	23,185
Trade and other receivables[a]	16	2,754	2,884	2,221
Cash and cash equivalents	22	526	989	843
		18,872	**20,748**	**27,578**

a The carrying amount excludes £360m (2015/16: £218m, 2014/15: £179m) of non-current trade and other receivables which relate to non-financial assets, and £1,106m (2015/16: £1,103m, 2014/15: £873m) of prepayments and other receivables.

The credit quality and credit concentration of cash equivalents, current asset investments and derivative financial assets are detailed in the tables below. Where the opinion of Moody's and S&P differ, the lower rating is used.

Moody's/S&P credit rating of counterparty	2017 £m	2016 £m	2015 £m
Aa2/AA and above	1,444	2,878	3,133
Aa3/AA-	208	120	206
A1/A+	952	64	248
A2/Aa	370	939	793
A3/A-	204	160	121
Baa1/BBB+[a]	561	492	439
Baa2/BBB and below	86	–	11
	3,825	**4,653**	**4,951**

a The group holds cash collateral of £702m (2015/16: £553m, 2014/15: £437m) in respect of derivative financial assets with certain counterparties.

The concentration of credit risk for trading balances of the group is provided in note 16, which analyses outstanding balances by line of business.

Where multiple transactions are undertaken with a single financial counterparty or group of related counterparties, the group has entered into netting arrangements to reduce the group's exposure to credit risk by making use of standard International Swaps and Derivatives Association (ISDA) documentation. The group has also entered into credit support agreements with certain swap counterparties whereby, on a weekly and monthly basis, the fair value position on notional £1,742m of long dated cross-currency swaps and interest rate swaps is collateralised. The related net cash inflow during the year was £100m (2015/16: £79m, 2014/15: £297m). The collateral paid and received is recognised within current asset investments and loans and other borrowings, respectively.

Offsetting of financial instruments

The table below shows the groups financial assets and liabilities that are subject to offset in the groups balance sheet and the impact of enforceable master netting or similar agreements.

		Related amounts not set off in the balance sheet		
Financial assets and liabilities At 31 March 2017	Amounts presented in the balance sheet £m	Right of set off with derivative counterparties £m	Cash collateral £m	Net amount £m
Derivative financial assets	2,246	(693)	(702)	851
Derivative financial liabilities	(903)	693	64	(146)
Total	**1,343**	**–**	**(638)**	**705**

		Related amounts not set off in the balance sheet		
At 31 March 2016	Amounts presented in the balance sheet £m	Right of set off with derivative counterparties £m	Cash collateral £m	Net amount £m
Derivative financial assets	1,639	(456)	(553)	630
Derivative financial liabilities	(911)	456	40	(415)
Total	**728**	**–**	**(513)**	**215**

25. Financial instruments and risk management continued

At 31 March 2015	Amounts presented in the balance sheet £m	Related amounts not set off in the balance sheet: Right of set off with derivative counterparties £m	Cash collateral £m	Net amount £m
Derivative financial assets	1,329	(603)	(437)	289
Derivative financial liabilities	(1,095)	603	30	(462)
Total	**234**	**–**	**(407)**	**(173)**

Derivatives

All of our derivative financial instruments are held at fair value on the group's balance sheet. The fair values of outstanding swaps and foreign exchange contracts are estimated using discounted cash flow models and market rates of interest and foreign exchange at the balance sheet date.

At 31 March 2017	Current asset £m	Non-current asset £m	Current liability £m	Non-current liability £m
Designated in a cash flow hedge	417	1,508	25	616
Other	11	310	9	253
Total derivatives	**428**	**1,818**	**34**	**869**

At 31 March 2016	Current asset £m	Non-current asset £m	Current liability £m	Non-current liability £m
Designated in a cash flow hedge	166	1,158	40	618
Other	11	304	8	245
Total derivatives	**177**	**1,462**	**48**	**863**

Derivatives At 31 March 2015	Current asset £m	Non-current asset £m	Current liability £m	Non-current liability £m
Designated in a cash flow hedge	86	941	161	698
Designated in a fair value hedge	6	143	–	–
Other	5	148	7	229
Total derivatives	**97**	**1,232**	**168**	**927**

All derivative financial instruments are categorised at Level 2 of the fair value hierarchy as defined in note 21, with the exception of a derivative energy contract which is classified at Level 3. The energy derivative was renegotiated during the year and has been designated as a cash flow hedge. On initial recognition of this contract a loss of £8m was deferred. The fair value of the energy derivative at 31 March 2017 was a liability of £8m (31 March 2016: £nil, 31 March 2015: asset of £14m). It has been valued using assumptions on volumes, inflation and energy prices.

Hedging activities

Derivatives may qualify as hedges for accounting purposes if they meet the criteria for designation as fair value hedges or cash flow hedges in accordance with IAS 39.

Cash flow hedges

Instruments designated in a cash flow hedge include interest rate swaps and cross-currency swaps hedging Euro- and US Dollar-denominated borrowings. Forward currency contracts are taken out to hedge step-up interest on currency denominated borrowings relating to the group's 2030 US Dollar bond. The hedged cash flows will affect the group's income statement as interest and principal amounts are repaid over the remaining term of the borrowings (see note 23).

Forecast foreign currency purchases, principally denominated in US Dollar, Euro and Asia Pacific currencies are hedged 12 months forward, with certain specific transactions hedged further forward. The related cash flows are recognised in the income statement over this period.

25. Financial instruments and risk management continued

All cash flow hedges were effective in the period. See note 26 for details of the movements in the cash flow hedge reserve.

Fair value hedges

Gains and losses arising on fair value hedges are disclosed in note 24.

Other derivatives

Our policy is not to use derivatives for speculative purposes. However, due to the complex nature of hedge accounting under IAS 39, some derivatives may not qualify for hedge accounting, or are specifically not designated as a hedge where natural offset is more appropriate. Derivative instruments that do not qualify for hedge accounting are classified as held for trading and held at fair value through profit or loss under IAS 39.

26. Other reserves

	Other comprehensive income				
	Cash flow reserve[a] £m	Available-for-sale reserve[b] £m	Translation reserve[c] £m	Merger and other reserves[d] £m	Total other reserves £m
At 1 April 2014	**42**	**11**	**245**	**858**	**1,156**
Revision[f]	–	–	4	–	4
At 1 April 2014-revised	42	11	249	858	1,160
Exchange differences	–	–	16	–	16
Net fair value gain on cash flow hedges	207	–	–	–	207
Recognised in income and expense	(218)	–	–	–	(218)
Fair value movements on available-for-sale assets	–	7	–	–	7
Tax recognised in other comprehensive income	24	–	13	–	37
At 1 April 2015[f]	**55**	**18**	**278**	**858**	**1,209**
Exchange differences[f]	–	–	29	–	29
Net fair value gain on cash flow hedges	381	–	–	–	381
Recognised in income and expense	(230)	–	–	–	(230)
Fair value movements on available-for-sale assets	–	(2)	–	–	(2)
Tax recognised in other comprehensive income	(33)	–	38	–	5
At 1 April 2016[f]	**173**	**16**	**345**	**858**	**1,392**
Exchange differences[e]	–	–	227	–	227
Net fair value gain on cash flow hedges	884	–	–	–	884
Recognised in income and expense	(938)	–	–	–	(938)
Fair value movements on available-for-sale assets	–	(3)	–	–	(3)
Tax recognised in other comprehensive income	8	–	21	–	29
At 31 March 2017	**127**	**13**	**593**	**858**	**1,591**

[a] The cash flow reserve is used to record the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred. Amounts 'recognised in income and expense' include a net charge to the cash flow reserve of £ 941m (2015/16: £255m, 2014/15: £244m) relating to fair value movements on derivatives. The items generating these foreign exchange movements are in designated cash flow hedge relationships.
[b] The available-for-sale reserve is used to record the cumulative fair value gains and losses on available-for-sale financial assets. The cumulative gains and losses are recycled to the income statement on disposal of the assets.
[c] The translation reserve is used to record cumulative translation differences on the assets and liabilities of foreign operations. The cumulative translation differences are recycled to the income statement on disposal of the foreign operation.
[d] The merger reserve arose on the group reorganisation that occurred in November 2001 and represented the difference between the nominal value of shares in the new ultimate parent company, BT Group plc, and the aggregate of the share capital, share premium account and capital redemption reserve of the prior ultimate parent company, British Telecommunications plc.
[e] Excludes £10m (2015/16: £nil; 2014/15: £nil) of exchange differences in relation to retained earnings attributed to non-controlling interest.
[f] Revised, see note 1.

27. Directors' emoluments and pensions

For the year ended 31 March 2017 the aggregate emoluments of the directors excluding deferred bonuses of £88,000 (2015/16: £306,000) was £1,149,000 (2015/16: £2,091,000). Deferred bonuses are payable in 5p ordinary shares of BT Group plc in three years' time subject to continuous employment.

Retirement benefits were accruing to one director (2015/16: one) under a money purchase scheme.

During the year no director exercised options (2015/16: one) under BT Group share option plans. Three directors who held office for the whole or part of the year (2015/16: three) received or are entitled to receive 5p ordinary shares of BT

27. Directors' emoluments and pensions continued
Group plc under BT long term incentive plans. The aggregate value of BT Group plc shares which vested to directors during the year under BT long term incentive plans was £2,646,000 (2015/16: £4,008,000).

The emoluments of the highest paid director excluding his deferred bonus of £36,000 (2015/16: £196,000) were £492,000 (2015/16: £1,260,000). He is entitled to receive 483,142 BT Group plc 5p ordinary shares under BT long term incentive plans subject to continuous employment and in some cases to certain performance conditions being met.

Included in the above aggregate emoluments are those of Tony Chanmugam who resigned as a director of BT Group plc on 13 July 2016 and British Telecommunications plc on 31 July 2016. The directors do not believe it is practicable for the purposes of this report to apportion the amount of total emoluments received by him between his services as director of the company and his services as director of BT Group plc.

The emoluments of the directors are calculated in accordance with the statutory provisions applicable to the company.

28. Related party transactions
Key management personnel comprise executive and non-executive directors and members of the Operating Committee of BT Group plc as well as the directors of the company. Compensation of key management personnel is disclosed in note 5.

Amounts paid to the group's retirement benefit plans are set out in note 19.

British Telecommunications plc and certain of its subsidiaries act as a funder and deposit taker for cash related transactions for both its parent and ultimate parent company. The loan arrangements described below with these companies reflect this. Cash transactions usually arise where the parent and ultimate parent company are required to meet their external payment obligations or receive amounts from third parties. These principally relate to the payment of dividends, the buyback of shares, the exercise of share options and the issuance of ordinary shares. Transactions between the ultimate parent company, parent company and the group are settled on both a cash and non-cash basis through these loan accounts depending on the nature of the transaction.

In 2001/02 the group demerged its former mobile phone business and as a result BT Group plc became the listed ultimate parent company of the remaining group. The demerger steps resulted in the formation of an intermediary holding company, BT Group Investments Limited, between BT Group plc and British Telecommunications plc. This intermediary company held an investment of £18.5bn in British Telecommunications plc which was funded by an intercompany loan facility with British Telecommunications plc.

A dividend of £2,350m (2015/16: £1,450m) was settled on 12 May 2016 with the parent company in relation to the year ended 31 March 2016. See note 10 and the group statement of changes in equity. No dividend has been declared in relation to the year ended 31 March 2017.

The loan facilities with both the parent company and ultimate parent company accrue interest at a rate of LIBOR plus 102.5 basis points, and are subject to an overall maximum of £25bn and £10bn respectively. The parent company currently finances its obligations on the loan as they fall due through dividends paid by the company.

In 2015/16 the ultimate parent company raised £1.0bn from an equity placing and entered into an additional intercompany loan agreement with British Telecommunications plc for this amount. This amount was raised to support BT Group plc's planned acquisition of EE.

28. Related party transactions continued

A summary of the balances with the parent and ultimate parent companies and the finance income or expense arising in respect of these balances is set out below:

	Notes	2017 Asset (liability) at 31 March £m	2017 Finance income (expense) £m	2016 Asset (liability) at 31 March £m	2016 Finance income (expense) £m	2015 Asset (liability) at 31 March £m	2015 Finance income (expense) £m
Amounts owed by (to) parent company							
Loan facility – non-current assets investments	21,24	10,191	191	10,510	326	18,263	195
Loan facility – current asset investments	21	192	n/a	327	n/a	45	n/a
Trade and other receivables	16	–	n/a	–	n/a	–	n/a
Trade and other payables	17	(63)	n/a	(70)	n/a	(41)	n/a
Amounts owed by (to) ultimate parent company							
Non-current assets investments	21,24	1,371	28	1,409	26	1,307	23
Non-current liabilities loans	23	(1,024)	(25)	(1,004)	(20)	(1,002)	(2)
Trade and other receivables	16	25	n/a	9	n/a	1	n/a
Current asset investments	21	28	n/a	26	n/a	3	n/a
Current liabilities loans	23	(159)	–	(20)	–	(2)	–
Trade and other payables	17	–	n/a	–	n/a	(5)	n/a

29. Financial commitments and contingent liabilities

Financial commitments were as follows:

At 31 March	2017 £m	2016 £m
Capital commitments	889	922
Other commitments	367	481
Device purchase commitments	423	260
TV programme rights commitments	2,644	2,026
Total	**4,323**	**3,689**

TV programme rights commitments, mainly relating to football broadcast rights, are those for which the licence period has not yet started.

Future minimum operating lease payments were as follows:

	2017 £m	2016[a] £m
Payable in the year ending 31 March:		
2017	–	642
2018	650	614
2019	610	564
2020	558	517
2021	532	493
2022	505	453
Thereafter	4,305	4,188
Total future minimum operating lease payments	**7,160**	**7,471**

a We have revised prior year information to be on a consistent basis

Operating lease commitments were mainly in respect of land and buildings which arose from a sale and operating leaseback transaction in 2001. Leases have an average term of 15 years (2015/16: 16 years) and rentals are fixed for an average of 15 years (2015/16: 16 years). Other than as disclosed below, there were no contingent liabilities or guarantees at 31 March 2017 other than those arising in the ordinary course of the group's business and on these no material losses are anticipated. We've insurance cover to certain limits for major risks on property and major claims in connection with legal liabilities arising in the course of our operations. Otherwise, the group generally carries its own risks.

29. Financial commitments and contingent liabilities continued

Commitments and guarantees

BDUK

Under the Broadband Delivery UK programme, grants received by the group may be subject to reinvestment or repayment to the customer depending on the level of take-up.

Telefónica UK Limited leases

We've provided guarantees relating to certain leases entered into by Telefónica UK Limited (formerly O2 UK Limited) prior to the demerger of mmO2 from BT on 19 November 2001. mmO2 plc (now part of the Telefónica Group) has given BT a counter indemnity for these guarantees.

There is no exposure in the event of credit default in respect of amounts used to defease future lease obligations. The guarantee lasts until Telefónica UK Limited has discharged all its obligations.

Contingent liabilities

Other than as disclosed below, there were no contingent liabilities at 31 March 2017 other than those arising in the ordinary course of the group's business and on these no material losses are anticipated. We've insurance cover to certain limits for major risks on property and major claims in connection with legal liabilities arising in the course of our operations. Otherwise, the group generally carries its own risks.

Legal proceedings

The company and its subsidiaries are involved in various legal proceedings, including actual or threatened litigation, government or regulatory investigations. However, save as disclosed below, the group does not currently believe that there are any legal proceedings, government or regulatory investigations that may have a material adverse impact on its operations or financial condition. In respect of each of the claims below, the nature and progression of such proceedings and investigations can make it difficult to predict the impact they will have on the group. There are many reasons why we cannot make these assessments with certainty, including, among others, that they are in early stages, no damages or remedies have been specified, and/or the often slow pace of litigation.

Italian business

In January 2017, our parent company made a further announcement with respect to the investigation into our Italian business. The issues in Italy have resulted in engagement with certain of our regulators and other authorities in the UK and elsewhere. As would be expected, we are cooperating fully with these bodies including the Italian authorities.

Phones 4U

In December 2016, the administrators of Phones 4U Limited (P4U) started legal proceedings in the High Court in the United Kingdom against EE, claiming £66m in payments under a retail trading agreement, which relate to a revenue share for certain customers prior to P4U's insolvency. We are contesting these claims and have brought counter-claims against P4U, including damages arising from P4U ceasing trading.

The administrators have also indicated an intention to start separate High Court proceedings, alleging that EE and other mobile network operators colluded to procure P4U's insolvency. We also dispute these allegations vigorously.

Hutchison 3G Limited

In May 2016, Hutchison 3G Limited (H3G) brought legal proceedings in the High Court in the United Kingdom against EE, alleging breach of contract relating to alleged delays in the roll out of certain free carrier coverage to H3G. H3G is entitled to this free carrier coverage under arrangements agreed following the merger of Orange and T-Mobile, predecessors of EE. The litigation is also at a relatively early stage and we are contesting the claims. H3G claims damages relating to loss of business of £167m, although we dispute that there is a basis for the claim and the substantiation of the claimed damages.

Brazilian tax claims

The Brazilian state tax authorities have made tax demands against certain Brazilian subsidiaries relating to the Tax on Distribution of Goods and Services (ICMS), an indirect tax imposed on the provision of telecommunications services in

29. Financial commitments and contingent liabilities continued
Brazil. The state tax authorities are seeking to impose ICMS on revenues earned on activities that the group does not consider as being part of the provision of telecommunication services, such as equipment rental and managed services. We have disputed the basis on which ICMS is imposed and the rate which the tax authorities are seeking to apply. We are currently contesting 35 cases, eight of which are pending appeal to the Sao Paulo Court of Appeal and the judicial process is likely to take many years. The current potential total of the claims is £232m. We are vigorously contesting these tax demands.

Regulatory matters
In respect of regulatory risks, the group provides for anticipated costs where an outflow of resources is considered probable and a reasonable estimate can be made of the likely outcome. Estimates are used in assessing the likely value of the regulatory risk. The ultimate liability may vary from the amounts provided and will be dependent upon the eventual outcome of any settlement.

We hold provisions for regulatory risks of £479m at 31 March 2017. These provisions cover the following issues:

Deemed Consent
Deemed Consent is an agreed process between Openreach and its Communications Provider (CP) customers, which allows Openreach to halt the installation and reschedule the delivery date for providing dedicated business services (known as Ethernet) in a number of specific circumstances where it is beyond its control. Ofcom found that Openreach had breached its contractual and regulatory obligations by inadequately and retrospectively applying Deemed Consent between January 2013 and December 2014.

We hold a provision of £300m for Deemed Consent relating to estimated compensation payments to CPs resulting from Ofcom's deemed consent investigation. The precise amount will result from discussions with affected parties, and could result in lower or higher payments than the £300m provided. We also hold £42m within trade payables being the Ofcom fine in relation to their investigation into Ethernet deemed consent, and is therefore certain.

Court of Appeal judgement on Ethernet Dispute
On 20 December 2012, Ofcom made determinations resolving disputes between BT and five communications providers (CWW now (Vodafone), Sky, TalkTalk, Virgin, and Verizon) concerning BT's charges for certain Ethernet services. The Determinations found that BT had overcharged CWW, Sky, TalkTalk, Virgin, and Verizon for certain Ethernet services for varying periods from April 2006 to March 2011. All parties appealed the determinations to the Competition Appeal Tribunal (CAT), which largely confirmed Ofcom's assessment of overcharging, and ordered BT to pay interest on the amounts overcharged. BT and TalkTalk appealed the CAT's judgment to the Court of Appeal, the hearing took place in March 2017.

On 4 May 2017, the Court of Appeal handed down its judgment, dismissing the TalkTalk appeal that Ofcom should have used a different cost standard in assessing cost orientation, which would have resulted in higher repayments to communications providers. The Court of Appeal also dismissed BT's appeal (which would have reduced the repayments). This confirmed our view that no additional amounts were payable in relation to TalkTalk appeal. Both BT and TalkTalk may appeal the Court of Appeal judgment to the Supreme Court.

Other regulatory matters
The remaining provision reflects management's estimates of regulatory risks across a range of issues, including price and service issues. The precise outcome of each matter depends on whether it becomes an active issue, and the extent to which negotiation or regulatory decision will result in financial settlement.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BRITISH TELECOMMUNICATIONS PLC

Report on the parent company financial statements

Our opinion

In our opinion, British Telecommunications plc's parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the parent company's affairs as at 31 March 2017;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report & Form 20-F 2017 (the "Annual Report"), comprise:

- the parent company balance sheet as at 31 March 2017;
- the parent company statement of changes in equity for the year then ended;
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 105, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and the Report of the Directors, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the group financial statements of British Telecommunications plc for the year ended 31 March 2017.

Richard Hughes (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
17 May 2017

FINANCIAL STATEMENTS OF BRITISH TELECOMMUNICATIONS PLC PARENT COMPANY BALANCE SHEET

British Telecommunications plc parent company balance sheet

Registered number 01800000

At 31 March	Notes	2017 £m	2016[a] £m
Non-current assets			
Intangible assets	4	1,954	1,934
Property, plant and equipment	5	13,558	13,312
Derivative financial instruments	20	1,818	1,448
Investments in subsidiary undertakings, associates and joint ventures	6	27,554	28,579
Other investments	7	12,464	11,922
Trade and other receivables[b]	9	177	95
Deferred tax assets	17	1,504	1,117
		59,029	58,407
Current assets			
Programme rights	8	264	225
Inventories		89	55
Trade and other receivables[b]	9	2,080	1,989
Derivative financial instruments	20	425	146
Other investments	7	6,453	6,948
Cash and cash equivalents[c]		286	655
		9,597	10,018
Current liabilities			
Loans and other borrowings	10	19,999	19,963
Derivative financial instruments	20	33	30
Trade and other payables	11	4,178	4,048
Current tax liabilities		–	113
Provisions	13	539	97
		24,749	24,251
Total assets less current liabilities		43,877	44,174
Non-current liabilities			
Loans and other borrowings	10	16,874	16,544
Derivative financial instruments	20	869	863
Retirement benefit obligations	17	8,632	6,052
Other payables	12	1,801	1,657
Deferred taxation	13	871	954
Provisions	13	323	344
		29,370	26,414
Equity			
Ordinary shares		2,172	2,172
Share premium		8,000	8,000
Other reserves	14	857	900
Retained profit		3,478	6,688
Equity shareholders' funds		14,507	17,760
		43,877	44,174

[a] Revised, see Note 1.
[b] Represented, see note 1
[c] Includes cash of £253m (2015/16: £601m) and cash equivalents of £33m (2015/16: £54m).

The financial statements of the company on pages 183 to 205 were approved by the Board of Directors on 17 May 2017 and were signed on its behalf by

Glyn Parry
Director

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital[a] £m	Share premium account[b] £m	Other reserves[d] £m	Retained earnings £m	Total equity £m
At 1 April 2015		2,172	8,000	783	5,618	16,573
Profit for the year[c]		–	–	–	1,968	1,968
Actuarial gain	17	–	–	–	742	742
Tax on actuarial gain		–	–	–	(251)	(251)
Share-based payments		–	–	–	47	47
Tax on share-based payments		–	–	–	12	12
Tax on items taken directly to equity	14	–	–	(31)	–	(31)
Increase in fair value of cash flow hedges	14	–	–	346	–	346
Dividends		–	–	–	(1,450)	(1,450)
Transferred to the income statement	14	–	–	(198)	–	(198)
Other		–	–	–	2	2
At 1 April 2016		2,172	8,000	900	6,688	17,760
Profit for the year[c]		–	–	–	1,351	1,351
Actuarial loss	17	–	–	–	(2,659)	(2,659)
Tax on actuarial loss		–	–	–	419	419
Share-based payments		–	–	–	44	44
Tax on share-based payments		–	–	–	(6)	(6)
Tax on items taken directly to equity	14	–	–	6	–	6
Increase in fair value of cash flow hedges	14	–	–	790	–	790
Dividends		–	–	–	(2,350)	(2,350)
Transferred to the income statement	14	–	–	(839)	–	(839)
Other		–	–	–	(9)	(9)
At 31 March 2017		**2,172**	**8,000**	**857**	**3,478**	**14,507**

a The allotted, called up and fully paid ordinary share capital of the company at 31 March 2017 and 31 March 2016 was £2,172m representing 8,689,755,905 ordinary shares of 25p each.
b The share premium account, representing the premium on allotment of shares, and the capital redemption reserve are not available for distribution.
c As permitted by Section 408(3) of the Companies Act 2006, no income statement of the company is presented. The company's profit for the financial year including dividends received from subsidiary undertakings was £1,351m (2015/16: £1,968m) before dividends paid of £2,350m (2015/16: £1,450m).
d A breakdown of other reserves is provided in note 14.

BRITISH TELECOMMUNICATIONS PLC PARENT COMPANY ACCOUNTING POLICIES

1. Basis of preparation

The term 'company' refers to British Telecommunications plc. These separate financial statements of the company are presented as required by the Companies Act 2006 as applicable to companies using FRS 101.

The company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100). Accordingly, these financial statements have been prepared in accordance with Financial Reporting Standard 101 (FRS 101) "Reduced disclosure framework".

FRS 101 involves the application of International Financial Reporting Standards (IFRS) with a reduced level of disclosure.

The financial statements are prepared on a going concern basis and under the historical cost convention as modified by the revaluation of certain financial instruments at fair value.

Exemptions

As permitted by Section 408(3) of the Companies Act 2006, the company's income statement has not been presented.

The company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 '*Share-based Payments*' in relation to group-settled share-based payments.
- The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q) (ii), B66 and B67 of IFRS 3 '*Business Combinations*'.
- The requirements of IFRS 7 '*Financial Instruments: Disclosures*'.
- The requirements of paragraphs 91 to 99 of IFRS 13 '*Fair Value Measurement*'.
- The requirement in paragraph 38 of IAS 1 '*Presentation of Financial Statements*' to present comparative information in respect of:
  (i) paragraph 79(a)(iv) of IAS 1 '*Presentation of Financial Statements*';
  (ii) paragraph 73(e) of IAS 16 '*Property, Plant and Equipment*'.
  (iii) paragraph 118(e) of IAS 38 '*Intangible Assets*'.
- The following paragraphs of IAS 1 '*Presentation of Financial Statements*':
  - 10(d) (statement of cash flows);
  - 10(f) (third statement of financial position);
  - 16 (statement of compliance with all IFRS);
  - 38A (requirement for minimum of two primary statements including cash flow statements);
  - 38B-D (additional comparative information);
  - 40A-D (third statement of financial position);
  - 111 (cash flow statement information); and
  - 134 to 136 (capital management disclosures).
- The requirements of IAS 7 '*Statement of Cash Flows*'.
- The requirements of paragraph 17 of IAS 24 '*Related Party Disclosures*'.
- The requirements in IAS 24 '*Related Party Disclosures*' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 '*Impairment of Assets*'.

The company intends to continue to take advantage of these exemptions in future years.

Where required, equivalent disclosures have been given in the group accounts of BT plc.

The preparation of financial statements in conformity with FRS 101 requires the use of accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying our accounting policies. We continually evaluate our estimates, assumptions and judgements based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates. Management has discussed its critical accounting estimates and associated disclosures with the BT Group plc Audit and Risk Committee.

1. Basis of preparation continued

The areas involving a higher degree of judgement or complexity are described below or in the applicable notes to the financial statements.

There are no new critical accounting estimates and key judgements proposed this year.

Revised presentation of cash pooling arrangements

An IFRIC clarification on IAS 32 'Financial Instruments presentation off setting and cash pooling arrangements' was released in April 2016. This confirmed a requirement to gross up cash and overdraft balances associated with notional cash pooling arrangements when there is no intention to settle the period end balance. As a result we revised the comparative balance sheet at 31 March 2016. The impact is to increase cash and cash equivalents and short-term loans and other borrowings by £499m at 31 March 2016.

Balance sheet format

The company has changed its balance sheet format from Companies Act format to that specified by IFRS. As part of this exercise non-current trade and other receivables have been represented within non-current assets. This increases the total of non current assets presented in the 2015/16 financial statements by £95m and decreases current assets by the same amount.

All subsequent comparative information has been revised accordingly.

2. Critical accounting estimates and key judgements

We have the following critical accounting estimates and key judgements:

- Goodwill, see note 4.
- Useful lives for property, plant and equipment and software, see note 5.
- Long-term customer contracts, see note 9.
- Providing for doubtful debts, see note 9.
- Government grants relating to Broadband Delivery UK (BDUK) contracts, see note 11.
- Provisions, Contingent liabilities and current income tax, see note 13.
- Retirement benefit obligations, see note 17.

3. Significant accounting policies

The significant accounting policies applied in preparation of our financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

Retirement benefits

The company's net obligation in respect of defined benefit pension plans is the present value of the defined benefit pension obligation less the fair value of the plan assets.

The calculation of the obligation is performed by a qualified actuary using the projected unit credit method and key actuarial assumptions at the balance sheet date.

The income statement charge is allocated between an operating charge and net finance income or expense. The operating charge reflects the increase in the defined benefit obligation resulting from pension benefit earned by active employees in the current period, the costs of administering the plans and any past service costs/credits such as those arising from curtailments or settlements. The net finance income or expense reflects the interest on the retirement obligations recognised in the company's balance sheet. Actuarial gains and losses are recognised in full in the period in which they occur and are presented in the company statement of changes in equity.

The company also operates defined contribution pension schemes and the income statement charge represents the contributions payable for the year.

Property, plant and equipment

Property, plant and equipment are included at historical cost, net of accumulated depreciation, and any impairment charges.

An item of property, plant and equipment is derecognised on disposal or when no future economic benefit is expected to arise from the continued use of the asset. The difference between the sale proceeds and the net book value at the date of disposal is recorded in operating costs in the income statement.

3. Significant accounting policies continued

Included within the cost of network infrastructure and equipment are direct and indirect labour costs, materials, and directly attributable overheads.

Depreciation is provided on property, plant and equipment on a straight line basis from the time the asset is available for use, to write off the asset's cost over the estimated useful life taking into account any expected residual value. Freehold land is not depreciated.

The lives assigned to principal categories of assets are as follows:

Land and buildings	
Freehold buildings	14 to 50 years
Short term leasehold improvements	Shorter of 10 years or lease term
Leasehold land and buildings	Unexpired portion of lease or 40 years, whichever is the shorter
Network infrastructure	
Transmission equipment:	
Duct	40 years
Cable	3 to 25 years
Fibre	5 to 20 years
Exchange equipment	2 to 13 years
Other network equipment	2 to 20 years
Other	
Motor vehicles	2 to 9 years
Computers and office equipment	3 to 6 years

Assets held under finance leases are depreciated over the shorter of the lease term or their useful economic life. Residual values and useful lives are reassessed annually and, if necessary, changes are recognised prospectively.

Intangible assets

Identifiable intangible assets are recognised when the company controls the asset, it is probable that future economic benefits attributable to the asset will flow to the company and the cost of the asset can be reliably measured. All intangible assets, other than goodwill, are amortised over their useful economic life. The method of amortisation reflects the pattern in which the assets are expected to be consumed. If the pattern cannot be determined reliably, the straight line method is used.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the identifiable net assets (including intangible assets) of the acquired business.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs that is expected to benefit from the business combination. Each CGU to which goodwill is allocated represents the lowest level within the company at which the goodwill is monitored for internal management purposes.

Telecommunications licences

Licence fees paid to governments, which permit telecommunications activities to be operated for defined periods, are initially recorded at cost and amortised from the time the network is available for use to the end of the licence period or where usage can extend beyond the licence period, over the period we expect to benefit from the use of the licences, which is typically 20 years.

Computer software

Computer software comprises computer software licences purchased from third parties, and also the cost of internally developed software. Computer software licences purchased from third parties are initially recorded at cost.

Costs directly associated with the production of internally developed software, including direct and indirect labour costs of development, are capitalised only where it is probable that the software will generate future economic benefits, the cost of the asset can be reliably measured and technical feasibility can be demonstrated, in which case it is capitalised as an intangible asset on the balance sheet costs which do not meet these criteria and research costs are expensed as incurred.

3. Significant accounting policies continued
The company's development costs which give rise to internally developed software include upgrading the network architecture or functionality and developing service platforms aimed at offering new services to the company's customers. See Research and Development on page 21.

Estimated useful economic lives

– Computer software	2 to 10 years

Programme rights
Programme rights are recognised on the balance sheet from the point at which the legally enforceable licence period begins. Rights for which the licence period has not started are disclosed as contractual commitments in note 16. Payments made to receive commissioned or acquired programming in advance of the legal right to broadcast the programmes are classified as prepayments.

Programme rights are initially recognised at cost and are amortised from the point at which they are available for use, on a straight line basis over the programming period, or the remaining licence term, as appropriate, this is generally 12 months. The amortisation charge is recorded within operating costs in the income statement.

Programmes produced internally are recognised within current assets at production cost, which includes labour costs and an appropriate portion of relevant overheads, and charged to the income statement over the period of the related broadcast. Programme rights are tested for impairment in accordance with the company's policy for impairment of non-financial assets set out on page 189.

Investments in subsidiary undertakings
Investments in subsidiary undertakings are stated at cost and reviewed for impairment if there are indicators that the carrying value may not be recoverable.

Inventories
Network maintenance equipment and equipment to be sold to customers are stated at the lower of cost or net realisable value, taking into account expected revenues from the sale of packages comprising a mobile handset and a subscription. Cost corresponds to purchase or production cost determined by the first in first out (FIFO) cost method.

Provisions
Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Financial liabilities within provisions are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. Onerous lease provisions are measured at the lower of the cost to fulfil or the cost to exit the contract.

Current and deferred income tax
Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. The company periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and the company establishes provisions where appropriate on the basis of the amounts expected to be paid to the tax authorities.

Deferred tax is recognised, using the liability method, in respect of temporary differences between the carrying amount of the company's assets and liabilities and their tax base. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on the taxable entity where there is an intention to settle the balances on a net basis. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future against which the deductible temporary difference can be utilised.

Deferred tax is determined using tax rates that are expected to apply in periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

3. Significant accounting policies continued

Impairment of non-financial assets

Non-financial assets are tested for impairment if events or changes in circumstances (assessed at each reporting date) indicate that the carrying amount might not be recoverable.

When an impairment test is performed, the recoverable amount is assessed by reference to the higher of the net present value of the expected future cash flows (value in use) of the continued use of the asset, and the fair value less cost to sell. Goodwill is reviewed for impairment at least annually. Impairment losses are recognised in the income statement.

Government grants

Government grants are recognised when there is reasonable assurance that the conditions associated with the grants have been complied with and the grants will be received.

Grants for the purchase or production of property, plant and equipment are initially recognised as deferred income; they are subsequently released to the income statement on a straightline basis over the useful life of the asset. Grants for the reimbursement of operating expenditure are deducted from the related category of costs in the income statement. Government grants received relating to the BDUK programme and other rural superfast broadband contracts are accounted for as described under 'Critical accounting estimates and key judgements' in note 11 and 12.

Once a government grant is recognised, any related contingent liability or contingent asset is treated in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

Foreign currencies

Foreign currency transactions are translated into the reporting currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of transactions and the translation of monetary assets and liabilities denominated in foreign currencies at period end exchange rates are recognised in the income statement in the line that most appropriately reflects the nature of the item or transaction.

Research and development

Research expenditure is recognised in the income statement in the period in which it is incurred. Development expenditure, including the cost of internally developed software, is recognised in the income statement in the period in which it is incurred unless it is probable that economic benefits will flow to the company from the asset being developed, the cost of the asset can be reliably measured and technical feasibility can be demonstrated, in which case it is capitalised as an intangible asset on the balance sheet. Capitalisation ceases when the asset being developed is ready for use. Research and development costs include direct and indirect labour, indirectly and directly attributable overheads.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys the right to use the asset.

Leases of property, plant and equipment where the company holds substantially all the risks and rewards of ownership are classified as finance leases. Finance lease assets are capitalised at the commencement of the lease term at the lower of the present value of the minimum lease payments or the fair value of the leased asset. The obligations relating to finance leases, net of finance charges in respect of future periods, are recognised as liabilities. Leases are subsequently measured at amortised cost using the effective interest method.

Leases where a significant portion of the risks and rewards are held by the lessor are classified as operating leases. Rentals are charged to the income statement on a straight line basis over the period of the lease.

Share-based payments

The ultimate parent of BT plc, BT Group plc, operates a number of equity settled share-based arrangements, as detailed in note 20 to the BT plc consolidated financial statements, under which the company receives services from employees as consideration for equity instruments (share options and shares) of BT Group plc.

Equity settled share-based payments are measured at fair value at the date of grant. Market based performance criteria and non-vesting conditions (for example, the requirements for employees to make contributions to the Share Purchase Program) are reflected in the measurement of this fair value. The fair value determined at the grant date is recognised as an expense on a straight line basis over the vesting period, based on the company's estimate of the options or shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. Fair value is measured using

3. Significant accounting policies continued

either the Binomial options pricing model or Monte Carlo simulations, whichever is most appropriate to the share-based payment arrangement.

Service and performance conditions are vesting conditions. Any other conditions are non-vesting conditions which have to be taken into account to determine the fair value of equity instruments granted. In the case that an award or option does not vest as a result of a failure to meet a non-vesting condition that is within the control of either counterparty, this is accounted for as a cancellation. Cancellations are treated as accelerated vesting and all remaining future charges are immediately recognised in the income statement. As the requirement to save under an employee sharesave arrangement is a non-vesting condition, employee cancellations are treated as an accelerated vesting.

No adjustment is made to total equity for awards that lapse or are forfeited after the vesting date.

Fixed asset investments

Fixed asset investments are stated at cost net of provisions for impairment.

Financial instruments

Financial liabilities at amortised cost

Trade and other payables

Financial liabilities within trade and other payables are initially recognised at fair value, which is usually the original invoiced amount, and subsequently carried at amortised cost using the effective interest method.

Loans and other borrowings

Loans and other borrowings are initially recognised at the fair value of amounts received net of transaction costs. Loans and other borrowings are subsequently measured at amortised cost using the effective interest method and, if included in a fair value hedge relationship, are re-valued to reflect the fair value movements on the hedged risk associated with the loans and other borrowings. The resulting amortisation of fair value movements, on de-designation of the hedge, is recognised in the income statement.

Available-for-sale investments

Liquid and other investments are classified as available-for-sale investments and are initially recognised at fair value plus direct transaction costs and then re-measured at subsequent reporting dates to fair value, with unrealised gains and losses (except for changes in exchange rates for monetary items, interest, dividends and impairment losses, which are recognised in the income statement) recognised in equity until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is taken to the income statement, in the line that most appropriately reflects the nature of the item or transaction. On disposal or impairment of the investments, any gains and losses that have been deferred in other comprehensive income are re-classified to the income statement. Dividends on equity investments are recognised in the income statement when the company's right to receive payment is established. Equity investments are recorded in non-current assets unless they are expected to be sold within one year.

Loans and receivables

Trade and other receivables

Trade and other receivables are initially recognised at fair value, which is usually the original invoiced amount, and are subsequently carried at amortised cost, using the effective interest method, less provisions made for doubtful receivables. Provisions are made specifically where there is evidence of a risk of non-payment, taking into account ageing, previous losses experienced and general economic conditions.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to cash and are subject to insignificant risk of changes in value and have an original maturity of three months or less. Bank overdrafts are included within loans and other borrowings, in current liabilities on the balance sheet.

Financial assets and liabilities at fair value through profit or loss

All of the company's derivative financial instruments are held for trading and classified as fair value through profit or loss.

3. Significant accounting policies continued

Derivative financial instruments

The company uses derivative financial instruments mainly to reduce exposure to foreign exchange and interest rate risks. The company's policy is not to use derivatives for trading purposes.

However, derivatives that do not qualify for hedge accounting or are specifically not designated as a hedge where natural off set is more appropriate are initially recognised and subsequently measured at fair value through profit and loss. Any direct transaction costs are recognised immediately in the income statement. Gains and losses on re-measurement are recognised in the income statement in the line that most appropriately reflects the nature of the item or transaction to which they relate. Derivative financial instruments are classified as current assets or current liabilities where they have a maturity period within 12 months. Where derivative financial instruments have a maturity period greater than 12 months, they are classified within either non-current assets or non-current liabilities. Where the fair value of a derivative contract at initial recognition is not supported by observable market data and differs from the transaction price, a day one gain or loss will arise which is not recognised in the income statement. Such gains and losses are deferred and amortised to the income statement based on the remaining contractual term and as observable market data becomes available.

Hedge accounting

Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge. To qualify for hedge accounting, hedge documentation must be prepared at inception and the hedge must be expected to be highly effective both prospectively and retrospectively. The hedge is tested for effectiveness at inception and in subsequent periods in which the hedge remains in operation. Hedge accounting is discontinued when the hedging instrument expires, or is sold, terminated or no longer qualifies for hedge accounting or the company chooses to end the hedge relationship. The company designates certain derivatives as either cash flow hedges or fair value hedges.

Cash flow hedges

When a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity, in the cash flow reserve. For cash flow hedges of recognised assets or liabilities, the associated cumulative gain or loss is removed from equity and recognised in the same line of the income statement and in the same period or periods that the hedged transaction affects the income statement. Any ineffectiveness arising on a cash flow hedge of a recognised asset or liability is recognised immediately in the same income statement line as the hedged item. Where ineffectiveness arises on highly probable transactions, it is recognised in the income statement line which most appropriately reflects the nature of the item or transaction.

Fair value hedges

When a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability, or unrecognised firm commitment, the change in fair value of the derivative that is designated as a fair value hedge is recorded in the income statement at each reporting date, together with any changes in fair value of the hedged asset or liability that is attributable to the hedged risk.

Dividends

Dividend distributions are recognised as a liability in the year in which the dividends are approved by the company's shareholders. Interim dividends are recognised when they are paid; final dividends when authorised in general meetings by shareholders.

NOTES TO THE FINANCIAL STATEMENTS

4. Intangible assets

What critical estimates have we made for Goodwill?
The value in use is determined using cash flow projections derived from financial plans approved by the Board covering a three-year period. They reflect management's expectations of revenue, EBITDA growth, capital expenditure, working capital and operating cash flows, based on past experience and future expectations of business performance. The value in use calculation includes a fourth year estimate of cash flows which is held flat from the last year assumed in the financial plans approved by the Board. Cash flows beyond the fourth-year period have been extrapolated using perpetuity growth rates.

What discount rate have we used?
The pre-tax discount rates applied to the cash flow forecasts are derived from our post-tax weighted average cost of capital. The assumptions used in the calculation of the group's weighted average cost of capital are benchmarked to externally available data.

What growth rates have we used?
The perpetuity growth rates are determined based on the forecast market growth rates of the regions in which the CGU operates, and they reflect an assessment of the long-term growth prospects of that market. The growth rates have been benchmarked against external data for the relevant markets. None of the growth rates applied exceed the expected long-term average growth rates for those markets or sectors.

	Software £m	Goodwill[a b] £m	Telecoms licences £m	Other £m	Total £m
Cost					
At 1 April 2016	4,706	471	202	10	5,389
Acquisitions[a]	–	60	–	13	73
Additions	493	–	–	–	493
Disposals and adjustments	(117)	(18)	–	–	(135)
At 31 March 2017	**5,082**	**513**	**202**	**23**	**5,820**
Accumulated amortisation					
At 1 April 2016	3,455	–	–	–	3,455
Charge for the year	526	–	–	–	526
Disposals and adjustments	(115)	–	–	–	(115)
At 31 March 2017	**3,866**	**–**	**–**	**–**	**3,866**
Net book value					
At 31 March 2017	1,216	513	202	23	1,954
At 31 March 2016	**1,251**	**471**	**202**	**10**	**1,934**

a See note 21
b For details of the impairment assessment refer to note 11 of the Consolidated Financial Statements

5. Property, plant and equipment

What critical accounting estimates have we made for property, plant and equipment?
The plant and equipment in our networks is long-lived with cables and switching equipment operating for over ten years and underground ducts being used for decades. We also develop software for use in IT systems and platforms that supports the products and services provided to our customers.

Our annual depreciation and amortisation charge is sensitive to the estimated service life allocated to each type of asset. If an asset life is extended this would reduce the annual depreciation or amortisation charge, and reducing a life would increase the charge. Asset lives are assessed annually and changed when necessary to reflect our current thinking on technological change, network investment plans (including the group's fibre rollout programme), prospective economic utilisation and the physical condition of the assets concerned. Changes to the service lives of assets implemented in the year had no significant impact on our results for the year ended 31 March 2017.

The carrying values of software, property, plant and equipment are disclosed below and in note 4. The useful lives applied to the principal categories of assets are disclosed on pages 187 and 188.

	Land and buildings £m	Network infrastructure[a] £m	Other[b] £m	Assets in course of construction £m	Total £m
Cost					
At 1 April 2016[d]	496	42,492	1,116	1,233	45,337
Acquisitions[e]	–	6	17	–	23
Additions	–	8	91	1,880	1,979
Transfers	1	2,403	8	(2,412)	–
Disposals and adjustments	(31)	(1,397)	(13)	–	(1,441)
At 31 March 2017	466	43,512	1,219	701	45,898
Depreciation					
At 1 April 2016[d]	267	30,847	982	–	32,096
Charge for the year	23	1,667	48	–	1,738
Disposals and adjustments[c]	(23)	(1,401)	(12)	–	(1,436)
At 31 March 2017	267	31,113	1,018	–	32,398
Net book value					
At 31 March 2017	199	12,399	201	701	13,500
Engineering stores	–	–	–	58	58
Total	199	12,399	201	759	13,558
At 31 March 2016[d]	229	11,645	134	1,233	13,241
Engineering stores	–	–	–	71	71
Total[d]	229	11,645	134	1,304	13,312

At 31 March	2017 £m	2016 £m
The net book value of land and buildings comprised:		
Freehold	33	47
Leasehold	166	182
Total net book value of land and buildings	199	229

a The net book value of assets held under finance leases included within network infrastructure at 31 March 2017 was £250m (2015/16: £355m). The depreciation charge on those assets for the year ended 31 March 2017 was £124m (2015/16: £105m). Within network infrastructure are assets with net book value of £7,537m (2015/16: £7,807m) which have useful economic lives of more than 18 years.
b Other mainly comprises motor vehicles, computers and fixtures and fittings.
c Fully depreciated assets in the company's fixed asset registers were reviewed during the year, as part of the BT Group plc annual asset verification exercise, and certain assets that were no longer in use have been written out, reducing cost and accumulated depreciation by £1,054m (2015/16: £682m).
d 1 April 2016 opening balances have been represented to reclassify assets between categories.
e See note 21

6. Investments in subsidiary undertakings, associates and joint ventures

	Subsidiary undertakings £m	Associates and joint ventures £m	Total £m
Cost			
At 1 April 2016	45,846	132	45,978
Additions[a]	13	13	26
Disposals[a]	(1,327)	–	(1,327)
At 31 March 2017	44,532	145	44,677
Provisions and amounts written off			
At 1 April 2016	17,399	–	17,399
Additions[a]	32	–	32
Disposals[a]	(308)	–	(308)
At 31 March 2017	17,123	–	17,123
Net book value at 31 March 2017	27,409	145	27,554
Net book value at 31 March 2016	28,447	132	28,579

a Additions and disposals principally arise due to transactions undertaken to simplify our legal entity hierarchy.

Details of the principal operating subsidiary undertakings are set out on pages 206 to 224.

7. Other investments

At 31 March	2017 £m	2016 £m
Fixed assets		
Available-for-sale assets	2	3
Loans to group undertakings	900	–
Loans to parent undertakings	11,562	11,919
Total investments	**12,464**	11,922
Current assets		
Available-for-sale assets	1,437	2,878
Loans and receivables	64	30
Loans to group undertakings	4,732	3,687
Loans to parent undertakings	220	353
Total investments	**6,453**	6,948

Available-for-sale current assets consist of investments in AAA rated liquidity funds denominated in Sterling of £900m (2015/16: £2,430m) and in Euros of £537m (2015/16: £448m).

Loans and receivables consist of bank deposits totalling £64m (2015/16: £30m), £34m (2015/16: £nil) are denominated in Sterling and £30m (2015/16: £30m) are denominated in US Dollars.

Loans to group and parent undertakings total £17,414m (2015/16: £15,959m). These consist of amounts denominated in Sterling of £14,686m (2015/16: £13,746m), Euros of £1,862m (2015/16: £1,207m), US Dollars of £91m (2015/16: £301m) and other currencies of £775m (2015/16: £705m).

8. Programme rights

	Total £m
At 1 April 2015	118
Additions	651
Amortisation	(544)
At 1 April 2016	225
Additions	753
Amortisation	(714)
At 31 March 2017	264

8. Programme rights continued

Additions reflect TV programme rights for which the legally enforceable licence period has started during the year. Payments made for programme rights for which the legally enforceable licence period has not yet started are included within prepayments (see note 9).

TV Programme rights commitments are disclosed in note 16.

9. Trade and other receivables

We've made various judgements in accounting for trade and other receivables. These include long-term contracts and bad debt provisions.

Long-term customer contracts

Long-term customer contracts can extend over a number of financial years. During the contractual period recognition of costs and profits may be impacted by judgements and estimates made as set out below.

What critical judgements have we made?

We've exercised judgement in assessing when the transition or transformation phase of a contract ends. This influences the timing of recognition of revenue and costs which are deferred until the transition or transformation phase ends unless these elements of a contract have standalone value.

Judgements are also required in assessing the lifetime profitability of a contract when determining whether we have an onerous contract liability. Where we have an onerous contract liability this will be classified in provisions.

How do we estimate contract losses?

We estimate and recognise immediately the entire estimated loss for the contract when we have an evidence that the contract is unprofitable. Also if these estimates indicate that any contract will be less profitable than previously forecast, contract assets may have to be written down to the extent they are no longer considered to be fully recoverable. We perform ongoing profitability reviews of our contracts in order to determine whether the latest estimates are appropriate. Key factors reviewed include:

- Transaction volumes or other inputs affecting future revenues which can vary depending on customer requirements, plans, market position and other factors such as general economic conditions.
- Our ability to achieve key contract milestones connected with the transition, development, transformation and deployment phases for customer contracts.
- The status of commercial relations with customers and the implication for future revenue and cost projections.
- Our estimates of future staff and third-party costs and the degree to which cost savings and efficiencies are deliverable.

At 31 March	**2017 £m**	2016 £m
Current receivables		
Trade receivables	632	683
Amount owed by group undertakings	411	316
Amount owed by parent undertakings	1	5
Other receivables	210	220
Accrued income	489	450
Prepayments	337	315
Total current receivables	2,080	1,989
Non-current trade and other receivables[a]	177	95
Total receivables	2,257	2,084

a Primarily represents prepayments and costs relating to the initial set up, transition or transformation phase of long-term networked IT services contracts.

How do we assess recoverability of our receivables?

We provide services to consumer and business customers, mainly on credit terms. We know that certain debts due to us will not be paid through the default of a small number of our customers. Judgements are required in assessing the recoverability of trade receivables and whether a provision for doubtful debts may be required.

In estimating a provision for doubtful debts we consider historical experience alongside other factors such as the current state of the economy and particular industry issues.

9. Trade and other receivables continued

Trade receivables are continuously monitored and allowances applied against trade receivables consist of both specific impairments and collective impairments based on our historical loss experiences for the relevant aged category as well as taking into account general economic conditions. Historical loss experience allowances are calculated by line of business in order to reflect the specific nature of customers relevant to that line of business.

10. Loans and other borrowings

At 31 March	**2017 £m**	2016 £m
1.625% US$600m bond due June 2016[a]	–	419
8.50% £683m bond due December 2016 (minimum 7.50%[b])	–	696
1.25% US$500m bond due February 2017[a]	–	348
6.625% £500m bond due June 2017[a]	526	525
5.95% US$1,100m bond due January 2018[a]	891	775
2.35% US$800m bond due February 2019[a]	642	558
1.125% €1,000m bond due June 2019	863	800
8.625% £300m bond due March 2020	300	300
0.625% €1,500m bond due March 2021[a]	1,282	1,190
1.125% €1,100m bond due March 2023[a]	942	873
3.50% £250m index linked bond due April 2025	403	396
1.75% €1,300m bond due March 2026[a]	1,113	1,032
5.75% £600m bond due December 2028	731	741
9.125% US$2,670m bond due December 2030[a] (minimum 8.625%[b])	2,191	1,910
6.375% £500m bond due June 2037[a]	522	522
Total listed bonds	10,406	11,085
Finance leases	114	116
Finance leases with group undertakings[c]	388	478
Total finance leases	502	594
Loans from group undertakings[c]	25,305	23,589
Acquisition facility	–	181
Other loans	652	554
Bank overdrafts	8	504
Total other loans and borrowings	25,965	24,828
Total loans and borrowings	36,873	36,507

a Designated in a cash flow hedge relationship.
b The interest rate payable on this bond attracts an additional 0.25% for a downgrade by one credit rating by either Moody's or S&P to the company's senior unsecured debt below A3/A-respectively. In addition, if Moody's or S&P subsequently increase the ratings then the interest rate will be decreased by 0.25% for each rating category upgrade by each rating agency. In no event will the interest rate be reduced below the minimum rate reflected in the above table.
c Loans from group undertakings including finance leases are £25,693m (2015/16: £24,067m) which consist of £21,069m (2015/16 £20,558m) denominated in Sterling, £3,610m (2015/16: £2,089m) denominated in Euros, £308m (2015/16: £766m) denominated in US Dollars and £706m (2015/16: £654m) denominated in other currencies. Included within these balances are fixed interest bonds issued to group undertakings amounting to £2,670m (2015/16: £1,823m) denominated in Sterling and £655m (2015/16: £15m) denominated in Euros with maturities between 2017 and 2025.

The interest rates payable on loans and borrowings disclosed above reflect the coupons on the underlying issued loans and borrowings and not the interest rates achieved through applying associated cross-currency and interest rate swaps in hedge arrangements.

Unless previously designated in a fair value relationship, all loans and other borrowings are carried in the company balance sheet and table above at amortised cost. The fair value of listed bonds is £12,116m (2015/16: £12,732m) and the fair value of finance leases is £546m (2015/16: £644m).

10. Loans and other borrowings continued

Loans and other borrowings are analysed as follows:

At 31 March	2017 £m	2016 £m
Current liabilities		
Listed bonds	1,528	1,604
Finance leases	2	2
Finance lease with subsidiary undertakings	109	108
Acquisition facility	–	181
Loans from group undertakings	17,700	17,011
Other loans and bank overdrafts	660	1,057
Total current liabilities	19,999	19,963
Non-current liabilities		
Listed bonds	8,878	9,481
Finance leases	112	114
Finance lease with subsidiary undertakings	279	370
Loans from group undertakings	7,605	6,578
Other loans	–	1
Total non-current liabilities	16,874	16,544
Total	36,873	36,507

At 31 March	2017 £m	2016 £m
Repayments falling due as follows:		
Within one year, or on demand	19,999	19,963
Between one and two years	1,770	1,368
Between two and three years	1,262	659
Between three and four years	5,090	4,950
Between four and five years	527	1,760
After five years	8,103	7,675
Total due for repayment after more than one year	16,752	16,412
Total repayments	36,751	36,375
Fair value adjustments for hedged risk	122	132
Total loans and other borrowings	36,873	36,507

	Minimum lease payments		Repayment of outstanding lease obligations	
At 31 March	2017 £m	2016 £m	2017 £m	2016 £m
Amounts payable under finance leases:				
Within one year	132	124	111	110
In the second to fifth years inclusive	352	439	289	363
After five years	153	191	102	121
	637	754	502	594
Less: future finance charges	(135)	(160)	–	–
Total finance lease obligations	502	594	502	594

The company's obligations under finance leases are secured by the lessors' title to the leased assets.

11. Current trade and other payables

Government grants relating to Broadband Delivery UK (BDUK) contracts

The company receives government grants in relation to the BDUK programme and other rural superfast broadband contracts. Where we've achieved certain service levels, or delivered the network more efficiently than anticipated, we've an obligation to either re-invest or repay grant funding.

11. Current trade and other payables continued

What estimates and critical judgements have we made in accounting for our BDUK contracts?
Assessing the timing of whether and when we change the estimated take up assumption is judgemental as it involves considering information which is not always observable. Our consideration on whether and when to change the base case assumption is dependent on our expectation of the long term take-up trend.

Our assessment of how much grant income to defer includes consideration of the difference between the take-up percentage agreed with the local authority and the likelihood of actual take-up. The value of the government grants deferred is disclosed in note below and in note 12.

We receive grant funding mainly under the BDUK programme. Under the terms of the programme, we have a potential obligation to either re-invest or repay grant funding depending on factors including the level of take-up achieved. In the current year we had a net grant deferral of £28m (2015/16: £109m net grant funding) mainly related to our activity on the BDUK programme. Our base case assumption for take-up in BDUK areas has been increased to 39% following our review of the level of customer take-up. To date we have deferred £446m (2015/16: £258m).

At 31 March	2017 £m	2016 £m
Trade payables	**1,710**	1,594
Amounts owed to group undertakings	**557**	464
Amounts owed to parent undertakings	**63**	71
Other taxation and social security	**377**	398
Other payables	**322**	339
Accrued expenses	**191**	229
Deferred income[a]	**958**	953
Total	**4,178**	4,048

a Deferred income includes government grants received or accrued of £24m (2015/16: £27m) and the potential obligation to re-invest or repay grant funding of £71m (2015/16: £71m).

12. Other non-current payables

At 31 March	2017 £m	2016 £m
Other payables[a]	**857**	853
Deferred income[b]	**944**	804
Total	**1,801**	1,657

a Other mainly relate to operating lease liabilities.
b Deferred income includes government grants received or accrued of £546m (2015/16: £592m) and the potential obligation to re-invest or repay grant funding of £375m (2015/16: £187m).

13. Provisions

Provisions and contingent liabilities
As disclosed below, our provisions principally relate to obligations arising from property rationalisation programmes, insurance claims, litigation and regulatory risks.

What critical judgements have we made in accounting for provisions?
We exercise judgement in determining the timing and quantum of all provisions to be recognised. Our assessment includes consideration of whether we have a present obligation, whether payment is probable and if so whether the amount can be estimated reliably. As part of this assessment, we also assess the likelihood of contingent liabilities occurring in the future which are not recognised as liabilities on our balance sheet. By their nature, contingencies will be resolved only when one or more uncertain future events occur or fail to occur. We assess the likelihood that a potential claim or liability will arise and also quantify the possible range of financial outcomes. We've disclosed our assessment of contingent liabilities in note 16.

What other critical estimates and assumptions have we made?
Under our property rationalisation programmes we've identified a number of surplus properties. Although efforts are being made to sub-let this space, this is not always possible. Estimates have been made of the cost of vacant possession and of any shortfall arising from any potential sub-lease income being lower than the lease costs. Any such shortfall is recognised as a provision.

13. **Provisions** continued

Our regulatory provision represents our best estimate of the cost to settle our present obligation in relation to historical regulatory matters. Included within the increase for the year is a £300m charge in relation to estimated compensation payments to other Communication Providers as a result of Ofcom's March 2017 findings on historical practices on Deemed Consent by Openreach. The precise amount of the compensation payments will result from discussions with the affected parties. A related fine of £42m has been imposed and is recognised as a payable rather than as a provision. The fine and associated compensation payments totalled £342m. The remaining provision reflects management's estimates of regulatory risks across a range of issues, including price and service issues. These increased by £126m, resulting from our re-assessment of these other regulatory risks and in light of the regulatory decisions by Ofcom and by the Competition Appeal Tribunal.

In respect of claims, litigation and regulatory risks, the group provides for anticipated costs where an outflow of resources is considered probable and a reasonable estimate can be made of the likely outcome. The prices at which certain services are charged are regulated and may be subject to retrospective adjustment by regulators. Estimates are used in assessing the likely value of the regulatory risk.

For all risks, the ultimate liability may vary from the amounts provided and will be dependent upon the eventual outcome of any settlement. The estimates are discounted using a rate that reflects the passage of time and risk specific to the liability. An estimate is also required in assessing the timing of when a provision is recognised. The outcome of our estimate of the provisions is disclosed below.

Provisions for liabilities and charges excluding deferred taxation	Property £m	Regulatory £m	Other[a] £m	Total £m
At 1 April 2016	225	64	152	441
Charged to the income statement	20	426	26	472
Unwind of discount	10	–	–	10
Utilised or released	(28)	(11)	(19)	(58)
Transfers	–	–	(3)	(3)
At 31 March 2017	227	479	156	862

a Other provisions include amounts provided for legal or constructive obligations arising from insurance claims and litigation risks, which will be utilised as the obligations are settled.

Analysed as:

	2017 £m	2016 £m
Current	539	97
Non current	323	344
	862	441

Taxation

What critical judgements do we make in accounting for taxation?

We pay tax based on the laws of the countries where we do business. In some cases these laws aren't clear, and it can take many years to agree an outcome with the relevant tax authority or through litigation. We estimate our tax on country-by-country and issue-by-issue bases. Our key uncertainties are whether our intra-group trading model will be accepted by a particular tax authority and whether payments made by our subsidiaries will be subject to withholding tax. We provide for the most likely outcome where an outflow is probable, but agreed amounts can differ materially from our estimates. Approximately 80% by value of the provisions are under active tax authority examination and are therefore likely to be re-estimated or resolved in the coming 12 months. £246m (2015/16 - £224m) is included in tax payable in relation to these uncertainties.

Under a downside case an additional amount of £86m could be required. This amount is not provided as we do not consider the outcome probable.

The value of the company's income tax assets and liabilities are disclosed on the company balance sheet on page 183. The value of the company's deferred tax assets and liabilities are disclosed in note 17 and below.

13. Provisions continued

Deferred tax liabilities are provided for in full on certain temporary differences.

	£m
At 1 April 2016	954
Credit recognised in the income statement	(101)
Charge recognised in reserves	18
At 31 March 2017	**871**

At 31 March	2017 £m	2016 £m
Tax effect of temporaly differences due to:		
Excess capital allowances	923	1,036
Share-based payments	(18)	(55)
Other	(34)	(27)
Total provision for deferred taxation	871	954

The deferred taxation asset relating to the retirement benefit deficit is disclosed in note 17.

What factors affect our future tax charges?
The rate of UK corporation tax changed from 20% to 19% on 1 April 2017 and will change to 17% on 1 April 2020. As deferred tax assets and liabilities are measured at the rate that are expected to apply in the periods of reversal, deferred tax balances at 31 March 2017 have been calculated at the rate at which the relevant balance is expected to be recovered or settled.

14. Reconciliation of movement in other reserves

	Cash flow reserve[a] £m	Capital redemption reserve[b] £m	Total other reserves £m
At 1 April 2015	31	752	783
Net fair value gains	346	–	346
Recognised in income statement in the year	(198)	–	(198)
Tax on items taken directly to equity	(31)	–	(31)
At 1 April 2016	148	752	900
Net fair value gains	790	–	790
Recognised in income statement in the year	(839)	–	(839)
Tax on items taken directly to equity	6	–	6
At 31 March 2017	105	752	857

a The cash flow reserve is used to record the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred. Amounts recognised in income statement in the year relate to fair value movements on derivatives. The items generating these foreign exchange movements are in designated cash flow hedge relationships.
b The capital redemption reserve is not available for distribution.

15. Related party transactions

The company is a wholly owned subsidiary of BT Group Investments Limited, which is the immediate parent company. BT Group Investments Limited is a wholly owned subsidiary of the ultimate holding company and controlling entity, BT Group plc.

Amounts paid out to the company's retirement benefit plans are set out in note 17.

Copies of the ultimate holding company's financial statements may be obtained from The Secretary, BT Group plc, 81 Newgate Street, London EC1A 7AJ.

The results of the company are included in the consolidated financial statements of BT Group plc. As permitted by the exemptions taken (FRS 101, paragraph 8(k) and the Companies Act 2006) the company is exempt from the requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such member.

16. Financial commitments and contingent liabilities

Financial commitments were as follows:

At 31 March	2017 £m	2016 £m
TV capital commitments	452	482
TV programme rights commitments	2,644	2,026
Other commitments	1	–
Total	3,097	2,508

As at 31 March 2017 TV programme rights commitments, mainly relating to football broadcast rights, are those for which the licence period has not yet started.

Future minimum operating lease payments for the company were as follows:

	2017 £m	2016 £m
Payable in the year ending 31 March:		
2017	–	327
2018	331	333
2019	329	331
2020	332	332
2021	339	336
2022	345	341
Thereafter	3,920	3,916
Total future minimum operating lease payments	5,596	5,916

Operating lease commitments were mainly in respect of land and buildings which arose from a sale and operating leaseback transaction in 2001. Leases have an average term of 15 years (2015/16: 16 years) and rentals are fixed for an average of 15 years (2015/16: 16 years).

Other than as disclosed below, there were no contingent liabilities or guarantees at 31 March 2017, other than those arising in the ordinary course of the company's business and on these no material losses are anticipated. The company has insurance cover to certain limits for major risks on property and major claims in connection with legal liabilities arising in the course of its operations. Otherwise, the company generally carries its own risks.

Under the Broadband Delivery UK programme, grants received by the company may be subject to reinvestment or repayment to the customer depending on the level of take-up.

The company has provided guarantees relating to certain leases entered into by Telefónica UK Limited (formerly O2 UK Limited) prior to the demerger of mmO2 from BT on 19 November 2001. mmO2 plc (part of the Telefónica Group) has given BT a counter indemnity for these guarantees. There is no exposure in the event of credit default in respect of amounts used to defease future lease obligations. The guarantee lasts until Telefónica UK Limited has discharged all its obligations.

Note 29 of the British Telecommunications plc consolidated financial statements comes from information in relation to contingent liabilities to which the company is subject.

Regulatory matters

In respect of regulatory risks, the group provides for anticipated costs where an outflow of resources is considered probable and a reasonable estimate can be made of the likely outcome. Estimates are used in assessing the likely value of the regulatory risk. The ultimate liability may vary from the amounts provided and will be dependent upon the eventual outcome of any settlement. We hold provisions for regulatory risks of £479m at 31 March 2017. These provisions cover the following issues:

Deemed Consent

Deemed Consent is an agreed process between Openreach and its Communications Provider (CP) customers, which allows Openreach to halt the installation and reschedule the delivery date for providing dedicated business services (known as Ethernet) in a number of specific circumstances where it is beyond its control. Ofcom found that Openreach had breached its contractual and regulatory obligations by inadequately and retrospectively applying Deemed Consent

16. Financial commitments and contingent liabilities continued

between January 2013 and December 2014. We hold a provision of £300m for Deemed Consent relating to estimated compensation payments to CPs resulting from Ofcom's deemed consent investigation. The precise amount will result from discussions with affected parties, and could result in lower or higher payments than the £300m provided. We also hold £42m within trade payables being the Ofcom fine in relation to their investigation into Ethernet deemed consent, and is therefore certain.

Court of Appeal Judgement on Ethernet Dispute

On 20 December 2012, Ofcom made determinations resolving disputes between BT and five communications providers (CWW now (Vodafone), Sky, TalkTalk, Virgin, and Verizon) concerning BT's charges for certain Ethernet services. The Determinations found that BT had overcharged CWW, Sky, TalkTalk, Virgin, and Verizon for certain Ethernet services for varying periods from April 2006 to March 2011. All parties appealed the determinations to the Competition Appeal Tribunal (CAT), which largely confirmed Ofcom's assessment of overcharging, and ordered BT to pay interest on the amounts overcharged. BT and TalkTalk appealed the CAT's judgment to the Court of Appeal, the hearing took place in March 2017. On 4 May 2017, the Court of Appeal handed down its judgment, dismissing the TalkTalk appeal that Ofcom should have used a different cost standard in assessing cost orientation, which would have resulted in higher repayments to communications providers. The Court of Appeal also dismissed BT's appeal (which would have reduced the repayments). This confirmed our view that no additional amounts were payable in relation to TalkTalk appeal. Both BT and TalkTalk may appeal the Court of Appeal judgment to the Supreme Court.

Other regulatory matters

The remaining provision reflects management's estimates of regulatory risks across a range of issues, including price and service issues. The precise outcome of each matter depends on whether it becomes an active issue, and the extent to which negotiation or regulatory decision will result in financial settlement.

17. Retirement benefits

Background

The company has both defined benefit and defined contribution retirement benefit plans. These plans are in the UK and the largest by membership is the BT Pension Scheme (BTPS) which is a defined benefit plan that was closed to new entrants on 31 March 2001. After that date new entrants have been able to join a defined contribution plan, currently the BT Retirement Saving Scheme (BTRSS), a contract-based arrangement.

What are our critical judgements, estimates and assumptions?

The accounting cost of these benefits and the present value of our pension liabilities involve judgements about uncertain events including the life expectancy of the members, the salary progression of our current employees, price inflation and the discount rate used to calculate the net present value of the future pension payments. We use estimates for all of these uncertain events in determining the pension costs and liabilities in our financial statements. Our assumptions reflect historical experience and our judgement regarding future expectations.

We also estimate the fair value of our pension assets which are made up of quoted and unquoted investments. The latter require more judgement as their values are not directly observable. The assumptions used in valuing unquoted investments are impacted by current market conditions and trends which could result in changes in fair value subsequent to measurement date.

Income statement

Year ended 31 March	**2017 £m**	2016 £m
Current service cost:		
– defined benefit plans (including administration expenses and PPF levy)	269	288
– defined contribution plans	160	145
Total operating expense	**429**	**433**
Net interest expense on net pensions deficit	**200**	**218**
Amount charged to profit before taxation	**629**	**651**

The total operating charge relating to defined benefit plans was £270m (2015/16: £290m) of which £1m (2015/16: £2m) has been recharged to subsidiary undertakings who are participating employers in the BTPS. The company retains the full liability for the BTPS.

17. Retirement benefits continued

The income statement charge in respect of defined contribution schemes represents the contributions payable by the company based upon a fixed proportion of employees' pay. The company has no exposure to investment and other experience risk.

Balance sheet

The net pension obligation in respect of defined benefit plans reported in the balance sheet is set out below:

	2017			2016		
At 31 March	Assets £m	Present value of liabilities £m	Deficit £m	Assets £m	Present value of liabilities £m	Deficit £m
BTPS	50,090	(58,649)	(8,559)	43,121	(49,119)	(5,998)
Other plans[a]	34	(107)	(73)	16	(70)	(54)
Total asset (deficit)	50,124	(58,756)	(8,632)	43,137	(49,189)	(6,052)
Impact of asset ceiling			–			–
Deferred tax asset			1,502			1,115
Net pension obligation			(7,130)			(4,937)

a Included in the present value of liabilities of other plans is £67m (2015/16: £57m) related to unfunded pension arrangements.

At 31 March 2017, £11m (2015/16: £8m) of contributions to defined contribution plans were outstanding and are reported under other creditors on the balance sheet. A deferred tax asset of £2m (2015/16: £2m) is recognised in relation to this.

Total deferred tax assets of £1,504m (2015/16: 1,117m) comprise £1,502m (2015/16: £1,115m) in respect of the defined benefit plan obligation and £2m in respect of the defined contribution plan.

Movements in defined benefit plan assets and liabilities are shown below:

	Assets £m	Liabilities £m	Deficit £m
At 1 April 2015	43,403	(50,781)	(7,378)
Current service cost (including administration expenses and PPF levy)	(40)	(250)	(290)
Interest on pension deficit	1,398	(1,616)	(218)
Return on plan assets below pensions interest on assets	(411)	–	(411)
Actuarial gain arising from changes in financial assumptions	–	234	234
Actuarial gain arising from experience adjustments	–	919	919
Regular contributions by employer	217	–	217
Deficit contributions by employer	875	–	875
Contributions by employees	9	(9)	–
Benefits paid	(2,314)	2,314	–
At 1 April 2016	**43,137**	**(49,189)**	**(6,052)**
Acquisition[b]	12	(19)	(7)
Current service cost (including administration expenses and PPF levy)	(44)	(226)	(270)
Interest on pension deficit	1,386	(1,586)	(200)
Return on plan assets below pensions interest on assets[a]	7,366	–	7,366
Actuarial loss arising from changes in financial assumptions	–	(9,885)	(9,885)
Actuarial loss arising from changes in demographic assumptions	–	(279)	(279)
Actuarial gain arising from experience adjustments	–	139	139
Regular contributions by employer	305	–	305
Deficit contributions by employer	251	–	251
Contributions by employees	8	(8)	–
Benefits paid	(2,297)	2,297	–
At 31 March 2017	50,124	(58,756)	(8,632)

a Actual return on plan assets in 2016/17 was £8,752m (2015/16: £987m).
b See note 21

BTPS

Information covering details of the BTPS, including the valuation methodology of scheme assets and liabilities, funding valuation and future funding obligations is disclosed in note 19 of the consolidated financial statements of BT plc.

18. Employees and directors

The average number of persons employed by the company (including directors) during the year was:

Year ended 31 March	2017 000	2016 000
Average monthly number of employees[a]	65.0	64.3

The aggregate staff costs were as follows:

Year ended 31 March	2017 £m	2016 £m
Wages and salaries	2,602	2,585
Share-based payments	40	47
Social security	318	285
Other pension costs	429	437
	3,389	3,354

a Includes an average of 52 non-UK employees (2015/16: 28 employees).

19. Directors' remuneration

Information covering directors' remuneration, interests in shares and share options of BT Group plc (the ultimate parent) pension benefits and loss of office is included in note 27 to the consolidated financial statements of BT plc.

20. Derivatives

All of the company's derivative financial instruments are held at fair value on the company's balance sheet. The fair values of outstanding swaps and foreign exchange contracts are estimated using discounted cash flow models and market rates of interest and foreign exchange at the balance sheet date.

31 March 2017	Current asset £m	Non current asset £m	Current liability £m	Non current liability £m
Designated in a cash flow hedge	414	1,508	24	616
Other	11	310	9	253
Total derivatives	425	1,818	33	869

At 31 March 2016	Current asset £m	Non current asset £m	Current liability £m	Non current liability £m
Designated in a cash flow hedge	135	1,144	22	618
Other	11	304	8	245
Total derivatives	146	1,448	30	863

Hedging activities

Derivatives may qualify as hedges for accounting purposes if they meet the criteria for designation as fair value hedges or cash flow hedges in accordance with IAS 39.

Cash flow hedges

Instruments designated in a cash flow hedge include interest rate swaps and cross-currency swaps hedging Euro and US Dollar denominated borrowings. Forward currency contracts are taken out to hedge step-up interest on currency denominated borrowings relating to our 2030 US Dollar bond. The hedged cash flows will affect profit or loss as interest and principal amounts are repaid over the remaining term of the borrowings (see note 10).

Forecast foreign currency purchases, principally denominated in US Dollar, Euro and Asia Pacific currencies are hedged 12 months forward, with certain specific transactions hedged further forward. The related cash flows will be recognised in the income statement over this period.

All cash flow hedges were fully effective in the period. See note 14 for details of the movements in the cash flow hedge reserve.

20. **Derivatives** continued

Other derivatives

The company's policy is not to use derivatives for speculative purposes. However, due to the complex nature of hedge accounting under IAS 39, some derivatives may not qualify for hedge accounting, or are specifically not designated as a hedge where natural offset is more appropriate. Derivative instruments that do not qualify for hedge accounting are classified as held for trading and held at fair value through profit or loss under IAS 39.

21. **Acquisitions**

On 1 April 2016 BT plc acquired the trade and assets of BT IT Services Limited as part of an ongoing entity rationalisation programme.

Related undertakings

Subsidiaries

Company name	Activity	Group interest in allotted capital[a]		Registered Address and Country of incorporation
Held directly				
Autumnwindow Limited	Property company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
Autumnwindow No.2 Limited	Finance company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
Autumnwindow No.3 Limited	Property company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
Basilica Computing Limited	In liquidation	100%	ordinary	1 More London Place, London, SE1 2AF
Basilica Distribution Limited	In liquidation	100%	ordinary	1 More London Place, London, SE1 2AF
Brightview Group Limited	In liquidation	100%	ordinary	1 More London Place, London, SE1 2AF
Brightview Internet Services Limited	In liquidation	100%	ordinary	1 More London Place, London, SE1 2AF
BT (RRS LP) Limited	Investment/holding company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Cables Limited	Manufacture of telecommunications and rail signalling cables	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Centre Nominee 2 Limited	Property company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Commerce L.L.C.	Dormant	100%	Units	c/o Corporation Services Company, 2711 Centerville Road, Suite 400, Wilmington, DE19808, United States
BT Conferencing Video Limited	In liquidation	100%	ordinary	BDO LLP, 55 Baker Street, London, W1U 7EU
BT Corporate Trustee Limited	Finance company	100%	limited by guarantee	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Directories Limited	In liquidation	100%	ordinary	BDO LLP, 55 Baker Street, London, W1U 7EU
BT Eighty-Four Limited	In liquidation	100%	ordinary	1 More London Place, London, SE1 2AF
BT European Investments Limited	Investment/holding company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Facilities Services Limited	Provision of facilities management services	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Fleet Limited	Fleet management	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Global Services Luxembourg SARL	Communications related services, systems integration and products provider	100%	ordinary	12 rue Eugene Ruppert, L 2453, Luxembourg
BT Holdings Limited	Investment holding company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT IT Services Limited	Dormant	100%	ordinary	3 Midland Way, Barlborough Links, Barlborough, Chesterfield, S43 4XA, United Kingdom
BT Italia S.p.A.	Communications related services and products provider	99%	ordinary	Via Tucidide 56, Torre 7, 20134, Milano, Italy
BT Lancashire Services Limited	Communications related services and products provider	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom

Company name	Activity	Group interest in allotted capital[a]		Registered Address and Country of incorporation
BT Law Limited	Provision of third party claims handling services	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Managed Services Limited	Communications related services and products provider	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Manx Investments Limited	In liquidation	100%	ordinary	Equiom (Isle of Man) Limited Jubilee Buildings, Victoria Street, Douglas, Isle of Man, IM1 2SH
BT Nederland N.V.	Communications related services, systems integration and products provider	100%	ordinary	Minerva & Mercurius building, Herikerbergweg 2, 1101CM, Amsterdam Zuidoost, Netherlands
BT Nederland N.V.[b]	Communications related services, systems integration and products provider	100%	–	Via Tucidide 56, Tome 7, 20134, Milano, Italy
BT Nominees Limited	Dormant	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Payment Services Limited	In liquidation	100%	ordinary	BDO LLP, 55 Baker Street, London, W1U 7EU
BT Property Holdings (Aberdeen) Limited	Property/holding company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Property Holdings (Oxford) Limited	Property/holding company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Property Limited	Dormant	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Sle Euro Limited	Finance company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Sle USD Limited	Finance company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Solutions Limited	Communications related services, systems integration and products provider	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT US Investments Limited	Investment/holding company	100%	– ordinary	Ogier House, The Esplanade, Parish, St Helier, Jersey, JE4 9WG, Jersey
BT US Investments Limited- UK Branch[b]	Investment company	100%	–	81 Newgate Street, London ECIA 7AJ, United Kingdom
EE Limited	Telecommunications	100%	ordinary	Trident Place, Mosquito Way, Halfield, Hertfordshire, AL 10 9BW, United Kingdom
groupBT Limited	Communications related services, systems integration and products provider	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
Holland House (Northern) Limited	Property/holding company	100%	ordinary	Alexander Bain House, 15 York Street, Glasgow, G2 8LA
Ilford Trustees (Jersey) Limited	Investment company	100%	ordinary	26 New Street, St Helier, JE2 3RA, Jersey
Newgate Leasing Limited	Investment/holding company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
Openreach Limited	Dormant	100%	ordinary	81 Newgate Street, London, ECIA 7AJ, United Kingdom
Pelipod Ltd	Supplier of delivery pods for supply chain solution	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
Plusnet plc	Broadband service provider	100%	ordinary	The Balance, 2 Pinfold Street, Sheffield, S1 2GU, United Kingdom
Radianz Italia S.r.l.	Communications related services, systems integration and products provider	100%	ordinary	Via Correggio 5, 20097, San Donato Milanese, Milan, Italy
Radianz Limited	Investment/holding company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
Southgate Developments Limited	Investment/holding company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
Tikit Group Limited	In liquidation	100%	ordinary	BDO LLP, 55 Baker Street, London, W1U 7EU

Company name	Activity	Group interest in allotted capital[a]		Registered Address and Country of incorporation
Tikit Limited	Software services products provider	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
Transcomm UK Limited	Communications related services and products provider	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
Held via other group companies				
Albacom Holdings	In liquidation	100%	ordinary	BDO LLP, 55 Baker Street, London, W1U 7EU
América Inalámbrica S.A.	Communications related services, systems integration and products provider	100%	common	Calle 113, 7 - 21 Piso 11, Bogota, Torre A. Oficina, Colombia
Atlanet SpA	Communications related services, systems integration and products provider	99%	ordinary	Via Pianezza n° 123, Torino, Italy
B. Telecomunicações, Cabo Verde, Sociedade Unipessoal, SA	In liquidation	100%	ordinary	Avenida Andrade Corvo, 30, Praia, CP63, Cabo Verde
B.T. Communication Israel Ltd	Communications related services, systems integration and products provider	100%	ordinary	Beit Oz, 14 Abba Hillel Silver Rd, Ramat Gan, 52506, Israel
Basictel SpA	Communications related services, systems integration and products provider	99%	ordinary	Via Tucidide 56, Torre 7, 20134, Milano, Italy
Belmullet Limited	Investment company	100%	ordinary	Third Floor, St Georges Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man
Bruning Limited	Finance company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT (Barbados) Limited	Communications related services, systems integration and products provider	100%	ordinary	The Gabbles, Haggatt Hall, St Michael, BB11063, Barbados
BT (CBP) Limited	In liquidation	100%	ordinary	1 More London Place, London, SE1 2AF
BT (Germany) GmbH & Co. oHG[f]	Communications related services and products provider	100%	ordinary	Barthstraße 4, 80339, Munich, Germany
BT (Gibraltar) Limited	Communications related services and products provider	100%	ordinary	Montagu Pavilion, 8-10 Queensway, Gibraltar
BT (India) Private Limited	Communications related services and products provider	100%	ordinary	11th Floor, Eros Corporate Tower, Opp. International Trade Tower, Nehru Place, New Delhi, 110019, India
BT (India) Private Limited Singapore Branch[b]	Communications related services and products provider	100%	-	8 Changi Business Park Ave (South Tower), #08-51 UE Bizhub East, Singapore, 486018, Singapore
BT (International) Holdings Limited	Investment/holding company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT (International) Holdings Limited (Jordan)	Communications related services, systems integration and products provider	100%	ordinary	Al Mirad Building - Second Floor, Wadi Saqra Street Amman - P.O.Box 962178 Amman 11196, Jordan
BT (Netherlands) Holdings B.V.	Holding company	100%	ordinary	Minerva & Mercurius building, Herikerbergweg 2, 1101CM, Amsterdam Zuidoost, Netherlands
BT (Nigeria) Limited	Communications related services and products provider	100%	ordinary	ADOL House, 15 CIPM Avenue, Central Business District, Alausa, Ikeja, Lagos, Nigeria
BT (SL) Limited	Communications related services and products provider	100%	ordinary	84 Dundas Street, Freetown, Sierra Leone
BT (Vietnam) Co. Ltd.	Communications related services and products provider	100%	ordinary	16th Floor, Saigon Tower, 29 Le Duan Road, District 1 Ho Chi Minh City, Socialist Republic of Vietnam

Company name	Activity	Group interest in allotted capital[a]		Registered Address and Country of incorporation
BT Albania Limited SH.P.K	Communications related services and products provider	100%	ordinary	Rr. Murat Toptani, Eurocol Center, Kati 8, Tirana, Albania
BT Algeria Communications SARL	Communications related services and products provider	100%	ordinary	20 Micro zone d'Activités Dar El Madina, Bloc B, Loc N01 Hydra, Alger, 16000, Algeria
BT Americas Holdings Inc.	Holding company	100%	common	c/o Corporation Service Company, 2711 Centerville Road, Suite 400,Wilmington, DE 19808, United States.
BT Americas Inc.	Communications related services, systems integration and products provider	100%	common	c/o Corporation Service Company, 2711 Centerville Road, Suite 400,Wilmington, DE 19808, United States.
BT Argentina S.R.L.	Communications related services and products provider	100%	ordinary	Lola Mora 421, 15th Floor, Puerto Madero, Buenos Aires, Buenos Aires, C1107DDA, Argentina
BT Australasia Pty Limited	Communications related services and products provider	100%	ordinary	Level 1, 76 Berry Street, North Sydney NSW 2060, 100% preference Australia
BT Australasia Pty Limited - New Zealand Branch[b]	Communications related services, systems integration and products provider	100%	–	c/- BDO Auckland, 8th Floor 120 Albert St, Auckland, New Zealand
BT Austria GmbH	Communications related services, systems integration and products provider	100%	ordinary	Handelskal 94-96, Millennium Tower 32. OG, Top 324, 1200, Wien Austria
BT Azerbaijan Limited, Limited Liability Company	Communications related services, systems integration and products provider	100%	ordinary	The Landmark III Building, 8th Floor, c/o Deloitte & Touche, 96 Nizami Street, Baku, AZ 1010, Azerbaijan
BT Belgrade d.o.o	Communications related services, systems integration and products provider	100%	ordinary	Dimitrija Georgijevica Starike 20, Belgrade, 11070, Serbia, Republic of
BT BELRUS Foreign Limited Liability Company	Communications related services, systems integration and products provider	100%	ordinary	Office 13, ul. M. Bogdanovicha 1,, Minsk, 220029, Belarus
BT Bilisim Hizmetleri Anonim Şirketi	Communications related services, systems integration and products provider	100%	ordinary	Yenisahra Mahallesi, Yavuz Selim Caddesi No 19/A, Atasehir, Istanbul, Turkey
BT Brasil Serviços de Telecomunicações Ltda	Communications related services, systems integration and products provider	100%	quotas	Rodovia SP 101, KM 9,5, Trecho Campinas-Monte Mor, Unidade 27, Bloco Beta, Distrito Industrial, Hortolandia - SP- CEP, Sao Paolo, 13185-900, Brazil
BT Broadband Luxembourg Sárl	Holding company	100%	ordinary	12 rue Eugene Ruppert, L 2453, Luxembourg
BT Bulgaria EOOD	Communications related services, systems integration and products provider	100%	ordinary	51B Bulgaria Blvd., fl. 4, Sofia, 1404, Bulgaria
BT Business Direct Limited	Technology equipment retailer	100%	ordinary	Alpha & Beta House, Enterprise Park, Horwich, Bolton, Lancs, BL6 6PE
BT Cables MEA FZE	Sale of telecommunications and rail signalling cables	100%	ordinary	Office No. TPOFCB0505, Jabal Ali, Dubai, United Arab Emirates
BT Canada Inc.	Holding company	100%	common	200 King St W, Suite 1904, Toronto ON M5H 3T4, Canada
BT China Communications Limited	Trading company	50%	ordinary	Unit 1537B, Floor 15th, No. 55, Xili Road, Shanghai Free Trade Zone, Shanghai, China
BT China Limited	Communications related services, systems integration and products provider	100%	registered	Room 702A, Tower W3, Oriental Plaza, 1 East Chang An Avenue, Dongcheng, Beijing, 100738, China

Company name	Activity	Group interest in allotted capital[a]		Registered Address and Country of incorporation
BT China Limited - Shanghai Branch Office[b]	Communications related services, systems integration and products provider	100%	–	Room 2101-2103, 21/F, International Capital Plaza, No. 1318 North Sichuan Road, Hong Kou District, Shanghai, 200080, China
BT Colombia Limitada	Communications related services, systems integration and products provider	100%	quotas	Calle 113 #7 - 21, Torre A, Of. 1112, Bogota, Colombia
BT Communications Bangladesh Limited	Communications related services, systems integration and products provider	100%	ordinary	House 51 (3rd Floor), Road 9, Block F, Banani, Dhaka, 1213, Bangladesh
BT Communications do Brasil Limitada	Communications related services, technology consulting and products provider	100%	quotas	Avenida das Nações Unidas, n° 4777, 17th Andar, Sao Paulo, SP, 05477-000, Brazil
BT Communications Ireland Group Limited	Holding company	100%	ordinary	2 Grand Canal Plaza, Upper Grand Canal Street, Dublin 4, Republic of Ireland
BT Communications Ireland Group Limited - UK Branch[b]	Communications related services, systems integration and products provider	100%	–	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Communications Ireland Holdings Limited	Holding company	100%	ordinary	2 Grand Canal Plaza, Upper Grand Canal Street, Dublin 4, Republic of Ireland
BT Communications Ireland Limited	Telecommunications service provider	100%	ordinary	2 Grand Canal Plaza, Upper Grand Canal Street, Dublin 4, Republic of Ireland
BT Communications Kenya Limited	Communications related services, systems integration and products provider	100%	ordinary	6th Floor,, Virtual Offices, Morningside Office Park, Ngong Road, Nairobi, Kenya
BT Communications Lanka (Private) Limited	Communications related services, systems integration and products provider	100%	ordinary	65/2, Sir Chittampalam A., Gardiner Mawatha, Colombo, 2, Sri Lanka
BT Communications Philippines Incorporated	Communications related services, systems integration and products provider	100%	ordinary	27th Floor, BPI Buendia Center,, 372 Sen. Gil Puyat Avenue, Makati City, 1226, Philippines
BT Communications Sales LLC	Communications related services	100%	Units	c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, United States.
BT Communications Sales of Virginia LLC	Communications related services	100%	Units	c/o Corporation Service Company, 1111 East Main Street, Richmond, VA 23219, United States.
BT Communications Sales, LLC Puerto Rico branch[b]	Communications related services, systems integration and products provider	100%	–	The Prentice-Hall Corporation System of Puerto Rico, Inc., c/o FGR Corporate Services Inc., Oriental Center, Suite P1 -, 254 Munoz Rivera Ave, San Juan, PUERTO RICO, 00918, Puerto Rico
BT Communications Services South Africa (Pty) Limited	Communications related services, systems integration and products provider	70%	ordinary	BT Building North Office Park, 54 Maxwell Drive, Woodmead, 2191, South Africa
BT Conferencing Video Inc.	Audio, video and web collaboration service provider	100%	common	c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, United States
BT Cornwall Limited	Employment company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Cote D'Ivoire	Communications related services, systems integration and products provider	100%	ordinary	29 Boulevard Clozel, 01 BP 3586, Abidjan 01, Cote d'Ivoire
BT de Panama, S.R.L.	Communications related services, systems integration and products provider	100%	ordinary	Edificio Credicorp Bank, Piso 3, Oficina 301, Cuidad de Panama, Panama

Company name	Activity	Group interest in allotted capital[a]		Registered Address and Country of incorporation
BT Denmark ApS	Communications related services, systems integration and products provider	100%	ordinary	Havnegade 39, 1058, Kobenhavn K, Denmark
BT Deutschland GmbH	Communications related services, systems integration and products provider	100%	ordinary	Barthstraße 4, 80339, Munich, Germany
BT Dominican Republic, S. A.	Communications related services, systems integration and products provider	100%	ordinary	Calle Jose Amado Soler, Esquina Abraham Lincoln, Edificio Progresus, Suite No. 3A, Ensanche Seraller, Santo Domingo, Dominican Republic
BT e-Serv (India) Private Limited	Communications related services, systems integration and products provider	100%	equity	11th Floor, Eros Corporate Tower, Opp. International Trade Tower, Nehru Place, New Delhi, 110019, India
BT El Salvador, Limitada de Capital Variable	Communications related services, systems integration and products provider	100%	ordinary	Edificio Centro Profesional Madre Tierra, Local 10, Piso 1, Santa Elena, Antiguo Cuscatlan, El Salvador
BT Enìa Telecomunicazioni S.P.A.	Communications related services	87%	ordinary	Strada S. Margherita n° 6/a, Parma, Italy
BT ESPAÑA, Compañia de Servicios Globales de Telecommunicaciones, S.A	Communications related services and products provider	100%	ordinary	c/o Isabel Colbrand 6-8, 28050, Madrid, Spain
BT Federal Inc.	Communication related services for US federal government	100%	common	c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, United States
BT Fifty	Finance company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Fifty-One	Finance company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Fifty-Three Limited	Holding company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Forty-Nine	Holding company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT France S.A.S.	Communications related services, systems integration and products provider	100%	ordinary	Tour Ariane, 5 place de la Pyramide, La Defense Cedex, 92088 PARIS, France
BT Frontline Outsourcing Sdn Bhd	In liquidation	100%	ordinary	Menara BT, Level 8, Tower 3, Avenue 7, Bangsar South, No.8, Jalan Kerinchi, 59200, Kuala Lumpur, Malaysia
BT Gabon Limited	Dormant	100%	Franc CFA	Centre Ville Avenue Alfred, Marche Imm. 2 AG BP 3927, Libreville, Gabon
BT Garrick GmbH	Holding company	100%	ordinary	Barthstraße 4, 80339, Munich, Germany
BT Georgia Limited LLC	Communications related services, systems integration and products provider	100%	–	74 Ilia Chavchavadze Avenue, Tbilisi, Georgia
BT Ghana Limited	Provision of IT network services and IT solutions	100%	ordinary	11 Adaman Loop, Tesano, Accra, Ghana
BT Global (Venezuela) S.A.	Communications related services, systems integration and products provider	100%	ordinary	Edificio Parque Cristal, Torre Este, Piso 1, Ofic. 06, Av. Francisco de Miranda, Los Palos Grandes, Caracas, Venezuela
BT Global Business Services Private Limited	Communications related services	100%	ordinary	11th Floor, Eros Corporate Tower, Opp. International Trade Tower, Nehru Place, New Delhi, 110019, India
BT Global Communications (Ireland) Limited	Property company	100%	ordinary	2 Grand Canal Plaza, Upper Grand Canal Street, Dublin 4, Republic of Ireland

Company name	Activity	Group interest in allotted capital[a]		Registered Address and Country of incorporation
BT Global Communications (Mauritius) Limited	Communications related services, systems integration and products provider	100%	ordinary	10 Frere Felix De Valois Street, Port Louis, Mauritius
BT Global Communications do Brasil Limitada	Communications related services, systems integration and products provider	100%	quotas	Av. das Nações Unidas,, 4777 - 17th floor, São Paulo / SP, Brazil
BT Global Communications India Private Limited	Communications related services	74%	ordinary	11th Floor, Eros Corporate Tower, Opp. International Trade Tower, Nehru Place, New Delhi, 110019, India
BT Global Costa Rica SRL	Communications related services, systems integration and products provider	100%	ordinary	Centro Corporativo Internacional, Piso 1, Avenida 6 y 8, Calle 26 y 28, Barrio Don Bosco, Costa Rica
BT Global Japan Corporation	Communications related services, systems integration and products provider	100%	ordinary	ARK Mori Building, 12-32 Akasaka, 1-Chome, Minato-Ku, Tokyo, 107 - 6024, Japan
BT Global Services (Dalian) Co. Ltd.	Communications related services, systems integration and products provider	100%	registered	No. 31 Software Park Road, Tower A, Science & Technology Building, Dalian Software Park, Dalian, 116023, China
BT Global Services (M) Sdn Bhd	Communications related services, systems integration and products provider	100%	ordinary	Menara BT, Level 8, Tower 3, Avenue 7, Bangsar South, No.8, Jalan Kerinchi, 59200, Kuala Lumpur, Malaysia
BT Global Services Botswana (Proprietary) Limited	Communications related services, systems integration and products provider	100%	ordinary	Plot 113, Unit 28 Kgale Mews, Gaborone International Finance Park, Gaborone, PO BOX 1839, Botswana
BT Global Services Korea Limited.	Communications related services, systems integration and products provider	100%	common	8th Floor, KTB Building, 66 Yeoui-daero, Yeongdeungpo-gu, Seoul, 07325, Korea, Republic of
BT Global Services Limited[b]	Communications related services, systems integration and products provider	100%	–	Via Mario Bianchini 15, 00142 Roma, Italy
BT Global Services Limited	Communications related services, systems integration and products provider	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Global Services Limited Londra Sucursala Bucuresti[b]	Communications related services, systems integration and products provider	100%	–	35-37 Oltenitei Str., Cladirea A1, Biroul Nr. 52, Bucharest, Sector 4, Romania
BT Global Services Solutions Sdn Bhd	Communications related services, systems integration and products provider	100%	ordinary	Menara BT, Level 8, Tower 3, Avenue 7, Bangsar South, No.8, Jalan Kerinchi, 59200, Kuala Lumpur, Malaysia
BT Global Services Technologies Pte. Ltd.	Communications related services, systems integration and products provider	100%	ordinary	8 Changi Business Park Ave (South Tower), #08-51 UE Bizhub East, Singapore, 486018, Singapore
BT Global Solutions Pte. Ltd.	Communications related services, systems integration and products provider	100%	ordinary	8 Changi Business Park Ave (South Tower), #08-51 UE Bizhub East, Singapore, 486018, Singapore
BT Global Technology (M) Sdn. Bhd.	Communications related services, systems integration and products provider	100%	ordinary	Menara BT, Level 8, Tower 3, Avenue 7, Bangsar South, No.8, Jalan Kerinchi, 59200, Kuala Lumpur, Malaysia
BT GLOBALNE STORITVE, telekomunikacijske storitve, obdelava podatkov, podatkovnih baz; d.o.o.	Communications related services, systems integration and products provider	100%	ordinary	CESTA V MESTNI LOG 1, 1000 LJUBLJANA, Slovenia
BT Guatemala S.A.	Communications related services, systems integration and products provider	100%	unique	3ra Avenida 13-78, Zona 10 Torre Citibank, Nivel 2, Oficina No. 206, Guatemala

Company name	Activity	Group interest in allotted capital[a]		Registered Address and Country of incorporation
BT Hong Kong Limited	Communications related services and products provider	39% 61%	ordinary preference	38 Floor Dorset House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong
BT Hong Kong Ltd. – Macau Branch[b]	Communications related services, systems integration and products provider	100%	–	Av.Praia Grande,No. 369,, Keng Ou Commercial Building,17 flr, Macau, Macao
BT International Holdings Limited & Co. LLC	Communications related services, systems integration and products provider	100%	ordinary	413, 4th Floor, Maktabi Building, Wattayah, PC 112, Muscat, 2188, Oman
BT Jamaica Limited	Communications related services, systems integration and products provider	100%	ordinary	26 Beechwood Avenue, PO Box 351, Kingston 5, Jamaica
BT Japan Corporation	Communications related services, systems integration and products provider	100%	ordinary	ARK Mori Building, 12-32 Akasaka, 1-Chome, Minato-Ku, Tokyo, 107 - 6024, Japan
BT Jersey Limited	Communications related services	100%	ordinary	PO Box 264, Forum 4, Grenville Street, St Helier, JE4 8TQ, Jersey
BT Kazakhstan LLP	Communications related services and products provider	100%	–	36 Al Farabi Ave., Bldg. B, Almaty Financial District, Almaty, Republic of Kazakhstan, 050059, Kazakhstan
BT LatAm (BVI) Corporation	Communications related services, systems integration and products provider	100%	common	Sea Meadow House, Blackburne Highway (P.O. Box 116), Road Town, Tortola, Virgin Islands, British
BT LatAm (Nevada) Corp.	Communications related services	100%	common	c/o Corporation Service Company, 2215-B Renaissance Drive, Las Vegas, NV 89119, United States
BT Latam Argentina S.A	Communications related services and products provider	100%	common	Lola Mora 421, 15th Floor, Puerto Madero, Buenos Aires, Buenos Aires, C1107DDA, Argentina
BT LatAm Brasil Ltda.	Communications related services, systems integration and products provider	100%	quotas	Rodvia SP 101, KM 9,5, Trecho Campinas - MonteMor, Unidade 27, Bloco Alfa, Distrito Industrial, Hortolandia - SP- CEP, 13185-900
BT LatAm Colombia S.A.	Communications related services, systems integration and products provider	100%	common	Calle 113 #7 - 21, Torre A, Of. 1112, Bogota, Colombia
BT LatAm Costa Rica, S.A.	Communications related services, systems integration and products provider	100%	common	Centro Corporativo Internacional, Piso 1, Avenida 6 y 8, Calle 26 y 28, Barrio Don Bosco, Costa Rica
BT LatAm Dominicana, S.A.	Communications related services, systems integration and products provider	100%	common	Calle Jose Amado Soler, Esquina Abraham Lincoln, Edificio Progresus, Suite No. 3A, Ensanche Seraller, Santo Domingo, Dominican Republic
BT LatAm El Salvador, S.A. de CV	Communications related services, systems integration and products provider	100%	common	Edificio Centro Profesional Madre Tierra, Local 10, Piso 1, Santa Elena, Antiguo Cuscatlan, El Salvador
BT LatAm Guatemala, S.A.	Communications related services, systems integration and products provider	100%	common	Edificio Torre Citibank en Intercontinental Plaza, 3 Avenida, 13-78, Zona 10, Nivel 2, Oficina 203, Guatemala
BT LatAm Holdings (Colombia) S.A.	Holding company	100%	common	Calle 113, 7 - 21 Piso 11, Bogota, Torre A. Oficina, Colombia
BT LatAm Holdings Brasil Ltda	Holding company	100%	common	Avenida Das Nações Unidas, 4777 - 14, andar-parte- Jardim Universidade - São Paulo - SP-CEP, 05477-000
BT LatAm Holdings One, Inc.	Holding company	100%	common	c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, United States

Company name	Activity	Group interest in allotted capital[a]		Registered Address and Country of incorporation
BT LatAm Holdings Three, Inc.	Holding company	100%	common	c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, United States
BT LatAm Holdings Two, Inc.	Holding company	100%	common	c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, United States
BT LatAm Honduras, S.A.	Communications related services, systems integration and products provider	100%	common	Edificio Plaza Azul, Piso 2 do Nivel, Local No. 26, Colonia Lomas del Guijarro Sur, Avenida Paris, Calle Viena, Tegucigalpa, Honduras
BT LatAm México, S.A. de C.V.	Communications related services, systems integration and products provider	100%	common	Av. Renato Leduc 321, Col. Toriello Guerra, 14050 Mexico D.F.
BT LatAm Nicaragua, S.A.	Communications related services, systems integration and products provider	100%	common	Edificio Invercasa, 5to Piso, Suite 505, Via Fontana, frente al colegio La Salle, Managua, Nicaragua
BT LatAm Panama, Inc.	Communications related services, systems integration and products provider	100%	common	Edificio Credicorp Bank, Piso 3, Oficina 301, Cuidad de Panama, Panama
BT LatAm Peru S.A.C.	Communications related services, systems integration and products provider	100%	common	Calle Martir Olaya, 129 of 1901, Miraflores, Lima, Peru
BT LatAm Services, Inc.	Holding company	100%	common	c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, United States
BT LatAm Venezuela, S.A.	Communications related services, systems integration and products provider	100%	ordinary	Av. Francisco de Miranda, Edificio Parque Cristal, Torre Este, Mezz 2, Local 28, Los Palos Grandes, Caracas 1060, Venezuela
BT LatAm, Inc.	Communications related services	100%	common	c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, United States
BT Latvia Limited, Sabiedriba ar ierobezotu atbildibu	Communications related services, systems integration and products provider	100%	ordinary	Muitas iela 1A, Riga, LV-1010, Latvia
BT Lease Holdings Limited	Investment/holding company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Leasing Limited	Finance company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Lebanon S.A.L.	Communications related services, systems integration and products provider	100%	ordinary	Abou Hamad, Merheb, Nohra & Chedid Law Firm, Chbaro Street, 22nd Achrafieh Warde Building, 1st Floor, Beirut, P.O.BOX 165126, Lebanon
BT LGS Limited	Employment company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Limited[b]	Communications related services, systems integration and products provider	100%	–	Telecomlaan 9, 1831 Diegem, Belgium
BT Limited	International telecommunications network systems provider	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Limited[b]	Dormant	100%	–	First Floor, Culross Court North, 16 Culross Road, Bryanston 2021, 2021, South Africa
BT Limited Hungarian Branch Office[b]	Communications related services, systems integration and products provider	100%	–	Budafoki U. 91-93, Budapest, 1117, Hungary
BT Limited Taiwan Branch[b]	Communications related services, systems integration and products provider	100%	–	Shin Kong Manhattan Building, 14F, No. 8, Sec. 5, Xinyi Road, Taipei, 11049, Taiwan

Company name	Activity	Group interest in allotted capital[a]		Registered Address and Country of incorporation
BT Limited, Beijing Office[b]	Communications related services, systems integration and products provider	100%	–	No. 3 Dong San Huan Bei Lu, Chao Yang District, Beijing, 100027, China
BT Limited, organizacni slozka[b]	Communications related services, systems integration and products provider	100%	–	V Celnici 1031/4, 110 00 Prague 1, Czech Republic
BT Luxembourg Investment Holdings Sarl	Holding company	100%	ordinary	12 rue Eugene Ruppert, L 2453, Luxembourg
BT Malawi Limited	Communications related services, systems integration and products provider	100%	ordinary	BDO Tax & Advisory Services (Pvt) Ltd, 6th Floor, Unit House, 12 Victoria Street PO BOX 3038, Blantyre, Malawi
BT Managed Services (No.2) Limited	Dormant	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT MDV Limited	Communications related services, systems integration and products provider	100%	ordinary	MD-2001, 65 Stefan cel Mare si Sfant Boulevard, Office 806, Chisinau, Republic of Moldova
BT MEA FZ-LLC	Communications related services, systems integration and products provider	100%	ordinary	Office No G03, Ground Floor, EIB Building No 04, Dubai, United Arab Emirates
BT Montenegro DOO	Communications related services, systems integration and products provider	100%	–	Bulevar revolucije 7, Podgorica, 81000, Montenegro
BT Moorgate LLC	Communications related services	100%	units	c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, United States
BT Moorgate LLC – UK Branch[b]	Communications related services	100%	–	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Moorgate One Limited	Finance company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Moorgate Two Limited	Finance company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Mozambique, Limitada	Communications related services, systems integration and products provider	100%	quotas	Av. 25 de Setembro, 1230, 3°, Bloco 5, Caixa Postal 4200, Maputo, 4200, Mozambique
BT Multimedia (Malaysia) Sdn Bhd	In liquidation	100%	ordinary	Level 1 to 8, Tower 3, Avenue 7, Bangsar South, No. 8 Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia
BT Netherlands Investments B.V.	Holding company	100%	ordinary	Minerva & Mercurius building, Herikerbergweg 2, 1101CM, Amsterdam Zuidoost, Netherlands
BT Newgate LLC	Communications related services	100%	units	c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, United States
BT Newgate LLC – UK Branch[b]	Communications related services	100%	–	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Nicaragua S.A.	Communications related services, systems integration and products provider	100%	capital	Edificio Invercasa, 5to Piso, Suite 505, Via Fontana, frente al colegio La Salle, Managua, Nicaragua
BT Niger	Dormant	100%	ordinary	57, Rue des Sorkhos, BP 616, Niamey-Niger
BT Nordics Finland Oy	Communications related services	100%	ordinary	Mannerheimvägen 12 B 6, 00100 Helsinki, Finland

Company name	Activity	Group interest in allotted capital[a]		Registered Address and Country of incorporation
BT Nordics Sweden AB	Communications related services	100%	ordinary	Box 30005, 104 25, Stockholm, Sweden
BT Pakistan (Private) Limited	Communications related services, systems integration and products provider	100%	ordinary	2nd Floor, Block C, Lakson Square, Building No. 1, Sarwar Shaheed Road, Karachi, 74200, Pakistan
BT Paraguay S.R.L.	Communications related services, systems integration and products provider	100%	quotas	Humaita 145, Planeta I Building, 9th Floor, Asuncion, 1245, Paraguay
BT Peru S.R.L.	Communications related services, systems integration and products provider	100%	ordinary	Calle Martir Olaya, 129 of 1901, Miraflores, Lima, Peru
BT Poland Spólka Z Ograniczoną Odpowiedzialnością	Communications related services, systems integration and products provider	100%	ordinary	International Business Center, Al. Armii Ludowej, 14,00638 Warszawa
BT Portugal – Telecomunicações, Unipessoal, Lda.	Communications related services, systems integration and products provider	100%	ordinary	Rua D. Francisco Manuel de Melo 21-1, 1070-085 Lisboa, Portugal
BT Professional Services (Germany) GmbH	Communications related services, systems integration and products provider	100%	–	Unterster Zwerchweg 61, 60599 Frankfurt am Main, Germany
BT Professional Services (Holdings) N.V.	Holding company	100%	ordinary	Telecomlaan 9, 1831 Diegem, Belgium
BT Professional Services (India) Private Limited	In liquidation	100%	ordinary	602, Tower B, RMZ Infinity, Municipal No. 3, Old Madras Road, Benninganahalli, Bengaluru, Karnataka, 560016, India
BT Professional Services (Luxembourg) S.A.	Communications related services, systems integration and products provider	100%	ordinary	12 rue Eugene Ruppert, L 2453, Luxembourg
BT Professional Services Nederland B.V.	Communications related services, systems integration and products provider	100%	ordinary	Minerva & Mercurius building, Herikerbergweg 2, 1101CM, Amsterdam Zuidoost, Netherlands
BT ROC Kft	Communications related services, systems integration and products provider	100%	business	Budafoki út 91-13, 1117 Budapest, Hungary
BT Services S.A.S.	Technology consulting and engineering services	100%	ordinary	Tour Ariane, 5 place de la Pyramide, La Defense Cedex, 92088 PARIS, France
BT Seventy-Four Limited	In liquidation	100%	ordinary	BDO LLP, 55 Baker Street, London, W1U 7EU
BT Seventy-Three	Investment/holding company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Siam Limited	Communications related services, systems integration and products provider	69%	preference	Athenee Tower, 23rd Floor, (CEO Suite, Suite 38 & 40), 63 Wireless Road, Lumpini, Pathumwan, Bangkok, 10330, Thailand
BT Singapore Pte. Ltd.	Communications related services and products provider	100%	ordinary	8 Changi Business Park Ave (South Tower), #08-51 UE Bizhub East, Singapore, 486018, Singapore
BT Sixty-Four Limited	Finance company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Slovakia s.r.o.	Communications related services, systems integration and products provider	100%	ordinary	Laurinská 18, 811 01 Bratislava, Slovakia
BT Sociedad De Responsabilidad Limitada	Communications related services, systems integration and products provider	100%	–	Colonia Lomas Del Guijarro sur, edificio Plaza azul, 2do. Nivel, local #26, Tegucigalpa, Honduras

Company name	Activity	Group interest in allotted capital[a]	Registered Address and Country of incorporation
BT Solutions Limited[b]	Communications related services, systems integration and products provider	100% –	236 Strovolos Avenue, Strovolos 2048, Nicosia, Cyprus
BT Solutions Limited[b]	Communications related services, systems integration and products provider	100% –	Av. Amazonas N21-252 y Carrión, Edificio Londres, 4° Piso, Quito, Ecuador
BT Solutions Limited[b]	Communications related services, systems integration and products provider	100% –	Tower Gate Place, Tal-Qroqq Street, Msida MSD 1703, Malta
BT Solutions Limited[b]	Communications related services, systems integration and products provider	100% –	PO Box 2184, 61 Bismarck Street, Windhoek, Namibia
BT Solutions Limited[b]	Communications related services, systems integration and products provider	100% –	9 Warner Street, Port of Spain, 0000, Trinidad and Tobago
BT Solutions Limited[b]	Communications related services, systems integration and products provider	100% –	c/o BDO East Africa, Plot 22 Mbuya Road, Bugolobi, Kampala, P.O. BOX 9113, Uganda
BT Solutions Limited[b]	Communications related services, systems integration and products provider	100% –	c/o BDO Zambia Limited Services, Unit B, Counting House Square, Thabo Mbeki Road, Lusaka, Zambia
BT Solutions Limited (Bahrain Branch)[b]	Communications related services, systems integration and products provider	100% –	Suite #650, 6th floor, Building No. 247, Road 1704, Diplomatic Area 317, Bahrain
BT Solutions Limited – Kuwait Branch[b]	Communications related services, systems integration and products provider	100% –	Block 2-A, 9th Floor, Ahmad Al Jaber Street, Sharq, Kuwait
BT Solutions Limited – Morocco Branch[b]	Communications related services, systems integration and products provider	100% –	193, Avenue HASSAN II, Casablanca, MAROC s/c Domicilia services, Morocco
BT Solutions Limited – Tanzania Branch[b]	Communications related services, systems integration and products provider	100% –	BDO East Africa, 1st Floor-Wing B, Infotech Place, Mwai Kibaki Road, Dar es Salaam, Tanzania
BT Solutions Limited Branch Office in Skopje[b]	Communications related services, systems integration and products provider	100% –	Str. Dame Gruev no.8, 5th floor, Building “Dom na voenite invalidi”, SKOPJE 1000, Macedonia
BT Solutions Limited Eesti Filiaal[b]	Communications related services, systems integration and products provider	100% –	A.H. Tammsaare tee 47, Tallinn, 11316, Estonia
BT Solutions Limited Liability Company	Communications related services, systems integration and products provider	100% –	26 Pravdy Street, Moscow, 127137, Russia
BT Solutions Limited Podruznica Hrvatska[b]	Communications related services, systems integration and products provider	100% –	Savska 64, 10 000 Zagreb, Croatia
BT Solutions Limited Sucursal Bolivia[b]	Communications related services, systems integration and products provider	100% –	Avenida Arce esquina Rosendo Gutierrez, Edifico Multicentre Torre B, Piso 12, La Paz, Bolivia
BT Solutions Limited Sucursal Uruguay[b]	Communications related services, systems integration and products provider	100% –	Rincón 487 Piso 11, Montevideo, ZIP CODE 11.000, Uruguay
BT Solutions Limited Útibú á íslandi[b]	Communications related services, systems integration and products provider	100% –	Co. Deloitte, Smáratorg 3, 201, Kopavogur, Iceland

Company name	Activity	Group interest in allotted capital[a]		Registered Address and Country of incorporation
BT Solutions Limited-Greek Branch[b]	Communications related services, systems integration and products provider	100%	–	75 Patision Street, Athens, 10434, Greece
BT Solutions Norway AS	Communications related services, systems integration and products provider	100%	ordinary	Munkedamsveien 45, c/o BDO AS, 0121 Oslo, Norway
BT South Tyneside Limited	Employment company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT Switzerland AG	Communications related services and products provider	100%	ordinary	Richtistrasse 5, 8304 Wallisellen, Switzerland
BT Systems (Malaysia) Sdn Bhd	Communications related services, systems integration and products provider	100%	ordinary	Menara BT, Level 8, Tower 3, Avenue 7, Bangsar South, No.8, Jalan Kerinchi, 59200, Kuala Lumpur, Malaysia
BT Technology (Dalian) Company Limited.	Communications related services, systems integration and products provider	100%	registered	Building 16, 6th Floor, Room 602-B, No. 269 Wuyi Road, Hi-tech Park, Dalian, 116023, China
BT Telconsult Limited	In liquidation	100%	ordinary	BDO LLP, 55 Baker Street, London, W1U 7EU
BT Telecom Egypt LLC	Communications related services, systems integration and products provider	100%	stakes	1 Wadi El Nile St., Mohandessin, Giza, Cairo, Egypt
BT Telecom India Private Limited	Communications related services, systems integration and products provider	74%	ordinary	11th Floor, Eros Corporate Tower, Opp. International Trade Tower, Nehru Place, New Delhi, 110019, India
BT Telecommunications Kenya Limited	Dormant	100%	ordinary	P.O. BOX 10032-00100, Nairobi, Kenya
BT Telekom Hizmetleri Anonim Şirketi	Communications related services, systems integration and products provider	100%	common	Barbaros Mahallesi, Yavuz Selim Caddesi No: 17/1 Ataşehir, istanbul, Turkey
BT Tunisia S.A.R.L	Communications related services, systems integration and products provider	100%	ordinary	BT chez BDO Tunisie, Immeuble, ENNOUR BUILDING 3éme étage, Centre Urbain Nord 1082, Mahrajene Tunis, Tunisia
BT UAE Limited	Communications related services, systems integration and products provider	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BT UAE Limited – Abu Dhabi Branch[b]	Communications related services, systems integration and products provider	100%	–	Office No. (F6) International Business Center, Building No. (27W10), Three Sails Tower, Cornish, Abu Dhabi, United Arab Emirates
BT UAE Limited – Dubai Branch (1)[b]	Communications related services, systems integration and products provider	100%	–	Office no.206 BLOCK B, Diamond Business Center 1, Al Barsha South Third, Dubai, P.O.BOX 25205, United Arab Emirates
BT UAE Limited – Dubai Branch (2)[b]	Communications related services, systems integration and products provider	100%	–	Office no.206 BLOCK B, Diamond Business Center 1, Al Barsha South Third, Dubai, P.O.BOX 25205, United Arab Emirates
BT Ukraine Limited Liability Company	Communications related services, systems integration and products provider	100%	stakes	Office 615; 26 Lesi Ukrayinky Boulevard, Kyiv, 01133, Ukraine
BT United States L.L.C.	Holding company	100%	units	c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, United States
BT U.S. Government Services L.L.C.	Dormant	100%	units	c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, United States
BTexact Technologies Limited	Finance company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
BTexact Venturing Limited	Investment/holding company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom

Company name	Activity	Group interest in allotted capital[a]		Registered Address and Country of incorporation
BTGS Mexico S.A. de C.V.	Communications related services, systems integration and products provider	2% 98%	fixed variable	Blvd. Manuel Avila Camacho #1-6, Col. Lomas de Chapultepec, Deleg. Miguel Hidalgo, Mexico D.F., 11009, Mexico
BTGS USVI Limited	Dormant	100%	ordinary	Waterfront Center - Suite A, St. Thomas 00803, US Virgin Islands
BTIH Teleconsult Drustvo sa organicenom odgovornoscu za posredovanje i zastupanje d.o.o. Sarajevo	Architectural and engineering activities and technical consulting	100%	–	ul. Despiceva broj 3/II, Sarajevo, Sarajevo-Stari Grad, 71000, Bosnia and Herzegovina
Canal Capital Investment Limited	Investment company	100%	ordinary	2 Grand Canal Plaza, Upper Grand Canal Street, Dublin 4, Republic of Ireland
Cegetel Holdings I B.V.[e]	Holding Company	100%	ordinary	12 rue Eugene Ruppert, L 2453, Luxembourg[e]
Cegetel Holdings I Sarl	Holding Company	100%	–	12 rue Eugene Ruppert, L 2453, Luxembourg
Cegetel Holdings II B.V.[e]	Holding Company	100%	ordinary	12 rue Eugene Ruppert, L 2453, Luxembourg[e]
Cegetel Holdings II Sarl	Holding Company	100%	–	12 rue Eugene Ruppert, L 2453, Luxembourg
Comms Factory Limited	In liquidation	100%	ordinary	BDO LLP, 55 Baker Street, London, W1U 7EU
Communications Global Network Services Limited	Communications related services and products provider	100%	ordinary	Century House, 16 Par-la-Ville Road, Hamilton, HM08, Bermuda
Communications Global Network Services Limited – UK Branch[b]	Communications related services and products provider	100%	–	81 Newgate Street, London, EC1A 7AJ, United Kingdom
Communications Networking Services (UK)	Communications related services and products provider	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
Communicator (IOM) Limited – UK Branch[b]	Insurance	100%	–	81 Newgate Street, London, EC1A 7AJ, United Kingdom
Communicator Insurance Company Limited	Investment company	99% 1%	ordinary preference	Third Floor, St Georges Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man
Communicator Limited	Investment company	100%	ordinary	Third Floor, St Georges Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man
Comsat de Guatemala S.A.	Dormant	100%	common	6a avenida, 7-39 de la zona 10 Edificio las Brisas, 3er nivel, ciudad de Guatemala, Guatemala
dabs.com plc	Technology equipment retailer	100%	ordinary	Alpha & Beta House, Enterprise Park, Horwich, Bolton, Lancs, BL6 6PE
Deleteway Limited	In liquidation	100%	ordinary	1 More London Place, London, SE1 2AF
Dublin London Network Limited	Communications related services, systems integration and products provider	55%	ordinary	2 Grand Canal Plaza, Upper Grand Canal Street, Dublin 4, Republic of Ireland
EE (Group) Limited	Dormant	100%	ordinary	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW, United Kingdom
EE Communications (South Africa) Proprietary Limited	Dormant	100%	ordinary	24-18th Street, Menlo Park, Pretoria, 0081, South Africa
EE Finance plc	Finance company	100%	ordinary	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW, United Kingdom
EE Pension Trustee Limited	Pension trustee company	100%	ordinary	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW, United Kingdom
EE Services Limited	Dormant	100%	ordinary	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW, United Kingdom
ERPTech S.p.A.	Communications related services, systems integration and products provider	99%	ordinary	Via Charles Robert Darwin, no 85, 20019, Settimo Milanese, Italy

Company name	Activity	Group interest in allotted capital[a]		Registered Address and Country of incorporation
ESAT Telecommunications (UK) Limited Dormant		100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
Everything Everywhere Limited	Dormant	100%	ordinary	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW, United Kingdom
Extraclick Limited	Investment/holding company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
Frontline Solutions Pte Ltd	In liquidation	100%	ordinary	600 North Bridge Road, #23-01 Parkview Square, 188778, Singapore
Green House Group Pte Ltd	In liquidation	100%	ordinary	8 Changi Business Park Ave (South Tower), #08-51 UE Bizhub East, Singapore, 486018, Singapore
Green House Solution Sdn Bhd	In liquidation	100%	ordinary	Menara BT, Level 8, Tower 3, Avenue 7, Bangsar South, No.8, Jalan Kerinchi, 59200, Kuala Lumpur, Malaysia
iASPire.Net Pte Ltd	Dormant	95%	ordinary	8 Changi Business Park Ave (South Tower), #08-51 UE Bizhub East, Singapore, 486018, Singapore
IINS, Inc.	Communications related services	100%	common	c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, United States
Infocom Telecom LLC	Communications related services, systems integration and products provider	100%	charter	Miusskaya Square 7, 125811, Moscow, Russia
Infonet Broadband Services Corporation	Communications related services	100%	common	c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, United States
Infonet China Limited	Communications related services, systems integration and products provider	100%	ordinary	38th floor, Dorset House, Taikoo Place, 979 King's Road, Island East, Hong Kong
Infonet China Limited Beijing Representative Office[b]	Communications related services, systems integration and products provider	100%	–	Room 4C, 7/F, Tower W3, Oriental Plaza, 1 East Chang An Avenue, Dong Cheng District, Beijing, P. R. China
Infonet China Limited Shanghai Representative Office[b]	Communications related services, systems integration and products provider	100%	–	Room B, 28/F, Cross Region Plaza, 899 Ling Ling Road, Xu Hui District, Shanghai, P. R. China
Infonet Italia S.p.A	Dormant	100%	ordinary	Via Tucidide 56, Torre 7, 20134, Milano, Italy
Infonet Primalliance Beijing Co. Ltd.	Communications related services, systems integration and products provider	66%	ordinary	Room 4B, 7/F, Tower W3, Oriental Plaza, 1 East Chang An Avenue, Dong Cheng District, Beijing, P. R. China
Infonet Primalliance Co., Limited	Communications related services, systems integration and products provider	100%	ordinary	38 Floor Dorset House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong
Infonet Primalliance Holding Co. Ltd.	Holding company	100%	ordinary	Room 635-3, No. 2 BLDG, 351 Guo Shou Jing Road, Zhang Jiang High Technology Park, Shanghai, P. R. China
Infonet Services (Hong Kong) Limited	Communications related services, systems integration and products provider	100%	ordinary	38 Floor Dorset House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong
Infonet Services Corporation	Communications related services	100%	common	c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, United States
Infonet USA Corporation	Communications related services	100%	common	c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, United States

Company name	Activity	Group interest in allotted capital[a]		Registered Address and Country of incorporation
International Network Services S.r.l.	Dormant	100%	quotas	Via Tucidide 56, Torre 7, 20134, Milano, Italy
IT Holdings, Inc	Dormant	100%	ordinary	12th Floor, Multinational Bancorporation Centre, 6805 Ayala Ave., Makati City, Philippines
Mainline Communications Group Limited	Holding company	100%	ordinary	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW, United Kingdom
Mainline Digital Communications Limited	Distribution of mobile telephones and services	100%	ordinary	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW, United Kingdom
Mainline Limited	Dormant	100%	ordinary	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW, United Kingdom
Mobilise Telecoms Limited	Dormant	100%	ordinary	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW, United Kingdom
M-Viron Limited	Dormant	100%	ordinary	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW, United Kingdom
Newgate Communication (Sudan) Co. Ltd	In liquidation	100%	ordinary	Alskheikh Mustafa Building, Parlman Street, Khartoum, Sudan
Newgate Street Secretaries Limited	Dormant	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
Numberrapid Limited	Communications related services, systems integration and products provider	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
Numberrapid Limited[b]	Communications related services, systems integration and products provider	100%	–	3 Baines Avenue, Box 334, Harare, Zimbabwe
Nuova Societa di Telecomunicazioni SpA	Communications related services, systems integration and products provider	99%	ordinary	Via Tucidide 56, Torre 7, 20134, Milano, Italy
Opimus S.A. de C.V.	Communications related services, systems integration and products provider	100%	common	Av. Renato Leduc 321, Col. Toriello Guerra, 14050 Mexico D.F.
Orange FURBS Trustees Limited	Pension trustee company	100%	ordinary	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW, United Kingdom
Orange Home UK Limited	Dormant	100%	ordinary	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW, United Kingdom
Orange Personal Communications Services Limited	Holding company	100%	ordinary	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW, United Kingdom
Orange Services India Private Limited	Provision of call centre services	100%	ordinary	A-47, Hauz Khas, New Delhi, Delhi-DL, 110016, India
Postgate Holding Company	In liquidation	100%	ordinary	BDO LLP, 55 Baker Street, London, W1U 7EU
Priestgate Limited	Holding company	100%	ordinary	Third Floor, St Georges Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man
PSPI-Subic, Inc	Dormant	51%	ordinary	c/o Sun Microsystems Phil Inc., 8767 Paseo de Roxas, Makati City, Philippines
PT BT Communications Indonesia	Communications related services, systems integration and products provider	100%	ordinary	World Trade Centre 5, 13th Floor, Jl. Jend. Sudirman Kav. 29-31, Jakarta, Jakarta, 12920, Indonesia
PT BT Indonesia	Communications related services, systems integration and products provider	100%	ordinary	World Trade Center 5, 13th Floor, Jl.Jend Sudirman, Kav. 29-31, Jakarta, Jakarta, 12920, Indonesia
PT Sun Microsystems Indonesia	Dormant	60%	ordinary	World Trade Centre 5, 13th Floor, Jl. Jend. Sudirman Kav. 29-31, Jakarta, Jakarta, 12920, Indonesia

Company name	Activity	Group interest in allotted capital[a]		Registered Address and Country of incorporation
Radianz Americas Inc.	Communications related services	100%	common	c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808, United States
Radianz Spain S.L.	Communications related services, systems integration and products provider	100%	ordinary	c/o Isabel Colbrand 6-8, 28050, Madrid, Spain
RDZ Netherlands BV	Communications related services, systems integration and products provider	100%	ordinary	Minerva & Mercurius building, Herikerbergweg 2, 1101CM, Amsterdam Zuidoost, Netherlands
Sama Empreedimentos e Participações Limitada	Dormant	100%	common	Rua Arnaldo Quintela - 96, 1 Andar - Botafogo, CEP 22.280-070, Rio de Janeiro, Brazil
Servicios de Telecomunicaciones BT Global Networks Chile Limitada	Communications related services, systems integration and products provider	100%	ordinary	Avenida Américo Vespucio Sur 951, Piso 1 y 2, Las Condes, Santiago de Chile, Chile, 7550371, Chile
SEV Automotive and Plant Limited	Maintenance and repair of motor vehicles	100%	ordinary	Future Technology Centre, Barmston Court, Nissan Way, Sunderland, Tyne and Wear, SR5 3NY, United Kingdom
Skeegle App Limited	In liquidation	100%	ordinary	BDO LLP, 55 Baker Street, London, W1U 7EU
Skeegle Holdings Limited	In liquidation	100%	ordinary	BDO LLP, 55 Baker Street, London, W1U 7EU
Skeegle Operations Limited	In liquidation	100%	ordinary	BDO LLP, 55 Baker Street, London, W1U 7EU
Stemmer GmbH	Communications related services, systems integration and products provider	100%	ordinary	Peter Henlein Straße 2, 82140 Olching, Germany
Sun Microsystems Philippines, Inc	Dormant	51%	common	18th Floor, Philamlife Tower, 8767 Paseo de Roxas, Makati City, Philippines
Sun Vietnam Co., Ltd.	Dormant	60%	ordinary	7th Floor, ESTAR Building, 147-149 Vo Van Tan Street, Ward 6, District 3, HCM City, Viet Nam
Sun Vietnam Pte. Ltd.	Dormant	60%	ordinary	8 Changi Business Park Ave (South Tower), #08-51 UE Bizhub East, Singapore, 486018, Singapore
Syntone S.A.R.L.	Dormant	99%	ordinary	Espace Jet Business Class, 16/18 Lot Attoufik Sidi Maarouf, Casablanca, 20190, Morocco
Tikit TFB Limited	In liquidation	100%	ordinary	BDO LLP, 55 Baker Street, London, W1U 7EU
Tikit, Inc.	Software services products provider	100%	ordinary	200 King Street W, Suite 1904, Toronto ON M5H 3TA, Canada
Tudor Minstrel	Finance company	100%	ordinary	81 Newgate Street, London, EC1A 7AJ, United Kingdom
UAB BTH Vilnius	Communications related services, systems integration and products provider	100%	ordinary	Aludariu str 2-33, LT-01113 Vilnius, Lithuania
Whitestream Industries Limited	Investment/holding company	100%	ordinary	2 Grand Canal Plaza, Upper Grand Canal Street, Dublin 4, Republic of Ireland

Joint ventures and joint operations[d]

Company name	Activity	Group interest in allotted capital[a]		Country of incorporation	Financial year end	Address
Held via other group companies						
BT OnePhone Limited	Communications related services and products provider	70%	ordinary	UK	31 March	81 Newgate Street, London, EC1A 7AJ, United Kingdom
Mobile Broadband Network Limited	Joint venture between EE and Hutchison 3G UK Limited to manage network	50%	ordinary	UK	31 December	6 Anglo Office Park, 67 White Lion Road, Amersham, Buckinghamshire, HP7 9FB, United Kingdom
Rugby Radio Station (General Partner) Limited	Property investment	50%	ordinary	UK	31 December	St Helen's 1 Undershaft, London, EC3P 3DQ, United Kingdom
Rugby Radio Station (Nominee) Limited	Property company	50%	ordinary	UK	31 December	St Helen's 1 Undershaft, London, EC3P 3DQ, United Kingdom
Rugby Radio Station LP	Property company	50%	–	UK	31 December	1 Poultry, London, EC2R 8EJ, United Kingdom

Interests in joint operations

EE Limited and Hutchison 3G UK Limited (together 'the Companies') each have a 50% share in the joint operation Mobile Broadband Network Limited ('MBNL'). MBNL's ongoing purpose is the operation and maintenance of mobile networks through a sharing arrangement. This includes the efficient management of shared infrastructure and networks on behalf of the Companies, acquiring certain network elements for shared use, and coordinating the deployment of new infrastructure and networks on either a shared or a unilateral basis (unilateral elements being network assets or services specific to one company only). The group is committed to incurring 50% of costs in respect of restructuring the Shared Network, a similar proportion of the operating costs (which varies in line with usage), and 100% of any unilateral elements.

Guarantees for the joint operation are given by Deutsche Telekom AG and Hutchison Whampoa Limited. Deutsche Telekom, Orange and BT have agreed between them to manage any potential liability by arrangements between themselves.

The principal place of business of the joint operation is in the UK.

Associates

Company name	Activity	Group interest in allotted capital[a]		Country of incorporation
Held via other group companies				
British Telecom Al-Saudia Limited	Communications related services, systems integration and products provider	49%	other	New Acaria Commercial Complex, Al-Siteen Street, Malaz, Riyadh, Saudi Arabia
BT Global Services (North Gulf) LLC	Communications related services, systems integration and products provider	49%	ordinary	1413, 14th Floor, Al Fardan Office Tower, Doha, 31316, Qatar
BT Siam Communications Co. Ltd.	Communications related services, systems integration and products provider	49%	class B	Athenee Tower, 23rd Floor, (CEO Suite, Suite 38 & 40), 63 Wireless Road, Lumpini, Pathumwan, Bangkok, 10330, Thailand
Collectively Limited	In liquidation	20%	–	Kings Orchard, 1 Queen Street, Bristol, BS2 0HQ, United Kingdom
Digital Mobile Spectrum Limited	Mitigation of interference to digital terrestrial television	25%	ordinary	83 Baker Street, London, W1U 6AG, United Kingdom
Ecquaria Limited	Communications related services, systems integration and products provider	50%	ordinary	c/o Offshore Incorporations Limited, P.O. Box 957, Road Town, Tortola, Virgin Islands, British

Company name	Activity	Group interest in allotted capital[a]		Country of incorporation
ePLDTSunphilcox JV, Inc	Dormant	20%	ordinary	32F Philam Life Tower, 8767 Paseo de Roxas, Makati City, Philippines
I2 S.r.l	Communications related services, systems integration and products provider	23%	–	Via XII Ottobre 2N, 16121, Genova, Liguria, Italy
Infonet Primalliance Shanghai Co. Ltd.	Communications related services, systems integration and products provider	28%	ordinary	Room 601, No. 2 BLDG, 750 West Zhong Shan Rd., Shanghai, 200051, P R China
Infonet Primalliance Shenzhen Co. Ltd.	Communications related services, systems integration and products provider	35%	ordinary	Room 1206, Tower A, United Plaza, 5022 Bin He Avenue, Fu Tian District, Shenzhen, P. R. China
Internet Matters Limited	Not for profit venture	25%	–	Ambassador House 2nd Floor, St Michaels Street, London, W2 1QS, United Kingdom
Mahindra – BT Investment Company (Mauritius) Limited	Investment/holding company	43%	ordinary	c/o IFS, IFS Court, TwentyEight, Cybercity, Ebene, Mauritius
Midland Communications Distribution Limited	Distribution and retailing of mobile telephones, associated equipment and airtime connections	35%	ordinary	Unit 1, Colwick Quays Business Park, Colwick, Nottingham, Nottinghamshire, NG4 2JY, United Kingdom
QXN S.c.p.A.	Communications related services and products provider	25%	ordinary	Piazzale Luigi Sturzo, 23, 00144, Roma, Italy
Real Time Content, Inc.	Provision of cloud based video services	21%	common	Corporation Trust Center, 1209 orange street, City of Wilmington, county of New castle 19801, United States of America.
SunPhilcox JV, Inc	Dormant	20%	ordinary	32F Philam Life Tower, 8767 Paseo de Roxas, Makati City, Philippines
Youview TV Limited	Not for profit venture – Development of software to provide TV platform services	14%	voting	10 Lower Thames Street, Third Floor, London, EC3R 6YT, United Kingdom

[a] The proportion of voting rights held corresponds to the aggregate interest in percentage held by the holding company and subsidiary undertakings.
[b] No shares issued for a branch.
[c] On 1 April 2016 BT IT Services Limited transferred its business operations to British Telecommunications plc.
[d] All joint ventures are governed by a joint venture agreement or shareholder agreement. MBNL is accounted for as a joint operation. See above.
[e] Cegetel holdings I B.V. and Cegetel Holdings II B.V. were incorporated in the Netherlands rather than the country of their registered address.
[f] BT (Germany) GmbH & Co. oHG is making use of disclosure exemptions under the German Commercial Code Paragraph 264.

ADDITIONAL INFORMATION
ALTERNATIVE PERFORMANCE MEASURES

Introduction

We assess the performance of the group using a variety of alternative performance measures. We principally discuss the group's results on an 'adjusted' basis. The rationale for using adjusted measures is explained below. Results on an adjusted basis are presented before specific items. Certain comparatives have been revised, see note 1 to the consolidated financial statements.

We also explain financial performance using measures that are not defined under IFRS and are therefore termed 'non-GAAP' measures. The non-GAAP measures we use are: the trend in underlying revenue excluding transit adjusted for the acquisition of EE, and in underlying operating costs excluding transit adjusted for the acquisition of EE, as well as in EBITDA, adjusted EBITDA and underlying EBITDA adjusted for the acquisition of EE. A reconciliation from these non-GAAP measures to the nearest measure prepared in accordance with IFRS is presented below. The alternative performance measures we use may not be directly comparable with similarly titled measures used by other companies.

Specific items

The group's income statement and segmental analysis separately identify trading results before specific items. The directors believe that presentation of the group's results in this way is relevant to an understanding of the group's financial performance, as specific items are identified by virtue of their size, nature or incidence. This presentation is consistent with the way that financial performance is measured by management and reported to the BT Group plc Board and BT Group plc Operating Committee and assists in providing a meaningful analysis of the trading results of the group. In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence.

Examples of charges or credits meeting the above definition and which have been presented as specific items in the current and/or prior years include acquisitions/disposals of businesses and investments, regulatory settlements, historical insurance or litigation claims, business restructuring programmes, asset impairment charges, property rationalisation programmes, net interest on pensions and the settlement of multiple tax years. In the event that other items meet the criteria, which are applied consistently from year to year, they are also treated as specific items.

Specific items are disclosed in note 8 to the consolidated financial statements.

Trends in underlying revenue and underlying operating costs excluding transit adjusted for the acquisition of EE

Underlying revenue and underlying operating costs excluding transit adjusted for the acquisition of EE are measures which seek to reflect the underlying performance of the group that will contribute to long-term sustainable profitable growth. As such they exclude the impact of acquisitions or disposals, foreign exchange movements and specific items. We exclude transit from the trends as transit traffic is low-margin and is affected by reductions in mobile termination rates. Given the significance of the EE acquisition to the group, in 2016/17 we are calculating underlying revenue excluding transit adjusted for the acquisition of EE and underlying operating costs excluding transit adjusted for the acquisition of EE, as though EE had been part of the group from 1 April 2015. This is different from how we usually adjust for acquisitions.

A reconciliation from the increase in reported revenue and in reported operating costs, the most directly comparable IFRS measures, to the movement in underlying revenue and increase in underlying operating costs excluding transit adjusted for the acquisition of EE, are set out below.

Year ended 31 March	2017 %	2016[a] %
Increase in reported revenue	**26.6**	**5.8**
Specific items	1.0	–
Increase in adjusted revenue	**27.6**	**5.8**
Adjusted for the acquisition of EE[b]	(25.9)	n/a
Increase in adjusted revenue adjusted for the acquisition of EE	**1.7**	**5.8**
Transit revenue	0.1	0.8
Acquisitions and disposals	0.1	(5.6)
Foreign exchange movements	(2.1)	0.9
(Decrease) increase in underyling revenue excluding transit adjusted for the acquisition of EE	**(0.2)**	**1.9**

a 2015/16 calculation excludes specific items, foreign exchange movements and the effect of acquisitions and disposals
b Includes EE's historical information as though it had been part of the group from 1 April 2015

ALTERNATIVE PERFORMANCE MEASURES continued

Year ended 31 March	2017 %	2016[a] %
Increase in reported operating costs	**35.7**	**5.7**
Depreciation and amortisation	0.5	0.4
Increase in reported operating costs[b]	**36.2**	**6.1**
Specific items	(3.9)	0.5
Increase in adjusted operating costs[b]	**32.3**	**6.6**
Adjustment for the acquisition of EE[c]	(28.7)	n/a
Increase in adjusted operating costs adjusted for the acquisition of EE[c]	**3.6**	**6.6**
Transit costs	0.2	1.0
Acquisitions and disposals	0.1	(6.4)
Foreign exchange movements	(2.7)	1.4
Increase in underlying operating costs[c] excluding transit adjusted for the acquisition of EE	**1.2**	**2.6**

a 2015/16 calculation excludes specific items, foreign exchange movements and the effect of acquisitions and disposals
b Before depreciation and amortisation
c Includes EE's historical financial information as though it had been part of the group from 1 April 2015.

EBITDA

In addition to measuring financial performance of the group and lines of business based on operating profit, we also measure performance based on EBITDA, adjusted EBITDA and underlying EBITDA adjusted for the acquisition of EE. EBITDA is defined as the group profit or loss before depreciation, amortisation, net finance expense and taxation. Adjusted EBITDA is defined as EBITDA before specific items. EBITDA is a common measure used by investors and analysts to evaluate the operating financial performance of companies, particularly in the telecommunications sector.

We consider EBITDA, adjusted EBITDA and underlying EBITDA adjusted for the acquisition of EE to be useful measures of our operating performance because they approximate the underlying operating cash flow by eliminating depreciation and amortisation. EBITDA and adjusted EBITDA are not direct measures of our liquidity, which is shown by our cash flow statement, and need to be considered in the context of our financial commitments.

Trends in underlying EBITDA adjusted for the acquisition of EE is a measure which seeks to reflect the underlying performance of the group that will contribute to long-term sustainable profitable growth. As such they exclude the impact of acquisitions or disposals, foreign exchange movements and specific items.

Given the significance of the EE acquisition to the group in 2016/17 we are calculating underlying EBITDA adjusted for the acquisition of EE, as though EE had been part of the group from 1 April 2015. This is different from how we usually adjust for acquisitions.

A reconciliation from group operating profit, the most directly comparable IFRS measure, to group EBITDA and adjusted group EBITDA and a reconciliation of the trends in EBITDA adjusted for the acquisition of EE is provided below. A reconciliation between operating profit and adjusted EBITDA for our lines of business is set out in note 4 to the consolidated financial statements.

Year ended 31 March	2017 £m	2016 £m	2015 £m
Operating profit	**3,170**	**3,615**	**3,408**
Depreciation and amortisation	3,572	2,631	2,538
EBITDA	**6,742**	**6,246**	**5,946**
Specific items[a]	906	212	253
Adjusted EBITDA	**7,648**	**6,458**	**6,199**

a Excludes amortisation specifics of £62m (2015/16: £nil, 2014/15: £nil). Specific items are set out in note 8 to the consolidated financial statements

ALTERNATIVE PERFORMANCE MEASURES continued

Year ended 31 March	2017 %	2016[a] %
Increase in EBITDA	**7.9**	**5.0**
Specific items[b]	10.5	(0.8)
Increase in adjusted EBITDA	**18.4**	**4.2**
Adjustment for the acquisition of EE[c]	(20.7)	n/a
(Decrease) increase in adjusted EBITDA adjusted for the acquisition of EE	**(2.3)**	**4.2**
Acquisitions and disposals	–	(4.2)
Foreign exchange movements	(0.6)	–
(Decrease) increase in underlying EBITDA adjusted for the acquisition of EE	**(2.9)**	**0.0**

a 2015/16 calculation excludes Specific items foreign exchange movements and the effect of acquisitions and disposals.
b Excludes amortisation specific of £62m (2015/16: £nil, 2014/15: £nil). Specific items are set out in note 8 to the consolidated financial statements
c Includes EE's historical financial information as though it had been part of the group from 1 April 2015.

INFORMATION FOR SHAREHOLDERS

Cautionary statement regarding forward-looking statements

This Annual Report contains certain forward-looking statements which are made in reliance on the safe harbour provisions of the US Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information which are based on forecasts of future results and estimates of amounts not yet determinable. These statements include, without limitation, those concerning: current and future years' outlook; revenue and revenue trends; EBITDA; free cash flow; shareholder returns including progressive dividends and share buyback; net debt; credit ratings; our group-wide restructuring programme, cost transformation plans and restructuring costs; investment in and roll out of our fibre network, and its reach, innovations, increased speeds and speed availability; our broadband-based service and strategy; our investment in TV, enhancing our TV service and BT Sport; the recovery plan, operating charge, regular cash contributions and interest expense for our defined benefit pension schemes; effective tax rate; growth opportunities in networked IT services, the pay-TV services market, broadband, and mobility and future voice; growth of, and opportunities available in, the communications industry and BT's positioning to take advantage of those opportunities; anticipated financial and other benefits to be realised from the EE acquisition; expectations regarding competition, market shares, prices and growth; expectations regarding the convergence of technologies; plans for the launch of new products and services; network performance and quality; the impact of regulatory initiatives, decisions and outcomes on operations, including the regulation of the UK fixed wholesale and retail businesses and the impact of Ofcom's Wholesale Local Access Market Review; BT's possible or assumed future results of operations and/or those of its associates and joint ventures; investment plans; adequacy of capital; financing plans and refinancing requirements; demand for and access to broadband and the promotion of broadband by third-party service providers; improvements to the control environment; and those statements preceded by, followed by, or that include the words 'aims', 'believes', 'expects', 'anticipates', 'intends', 'will', 'should' 'plans', 'strategy', 'future', 'likely', 'seeks', 'projects', 'estimates' or similar expressions.

Although BT believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forwardlooking statements. Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: material adverse changes in economic conditions in the markets served by BT whether as a result of the uncertainties arising from the UK's exit from the EU or otherwise; future regulatory and legal actions, decisions, outcomes of appeal and conditions or requirements in BT's operating areas, including the outcome of Ofcom's strategic review of digital communications in the UK, as well as competition from others; the outcome of Ofcom's Wholesale Local Access Market Review; responses to Openreach consultations and the results of any future spectrum auctions; selection by BT and its lines of business of the appropriate trading and marketing models for its products and services; technological innovations, including the cost of developing new products, networks and solutions and the need to increase expenditures for improving the quality of service; the anticipated benefits and advantages of new technologies, products and services not being realised; developments in the convergence of technologies; external threats to cyber security, data or resilience; political and geo-political risks; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs or impact on customer service; the timing of entry and profitability of BT in certain markets; significant changes in market shares for BT or its principal products and services; fluctuations in foreign currency exchange rates or interest rates; the underlying assumptions and estimates made in

INFORMATION FOR SHAREHOLDERS continued

respect of major customer contracts proving unreliable; the aims of the anticipated savings from our restructuring programmes not being delivered; the aims of the group-wide restructuring programme not being achieved; the anticipated benefits and synergies of the EE integration not being delivered; the improvements to the control environment proposed following the investigations into BT's Italian business not being implemented successfully or effectively; and general financial market conditions affecting BT's performance and ability to raise finance. Certain of these factors are discussed in more detail elsewhere in this Annual Report including, without limitation, in **Our risks** on pages 36 to 52. BT undertakes no obligation to update any forwardlooking statements whether written or oral that may be made from time to time, whether as a result of new information, future events or otherwise.

Background

Telephone services in almost all of the UK were, until 1981, provided by the Post Office, which was a government department until 1969 when it was established as a state public corporation. In 1981, the postal and telecommunications services of the Post Office became the responsibility of two separate corporations, with British Telecommunications – under the trading name of British Telecom – taking over the telecommunications business.

British Telecommunications plc, the successor to the statutory corporation British Telecommunications, was incorporated in England and Wales on 1 April 1984 as a public limited company, wholly owned by the UK Government, as a result of the Telecommunications Act 1984. Between November 1984 and July 1993, the UK Government sold all of its shareholding in three public offerings.

BT Group plc was formed when the mmO2 business, comprising what had been BT's mobile activities in the UK, the Netherlands, Germany and the Republic of Ireland, was demerged on 19 November 2001. British Telecommunications plc (BT plc) shares ceased trading on the London, New York and Tokyo stock exchanges on 16 November 2001. BT Group plc's shares commenced trading on the London and New York stock exchanges on 19 November 2001. As a result of the transaction BT plc became a wholly-owned subsidiary of BT Group Investments Limited (BTGI), itself wholly owned by BT Group plc. Accordingly, the ordinary shares of BT plc were de-listed from the London Stock Exchange on 19 November 2001.

The registered office address of BT is 81 Newgate Street, London EC1A 7AJ. The company's agent in the US is Richard Nohe, 620 Eighth Avenue, New York, NY 10018, US.

Articles of Association (Articles)

The following is a summary of the principal provisions of BT's Articles, a copy of which has been filed with the Registrar of Companies. New Articles of Association were adopted on 5 August 2010, largely to take account of changes in UK company law brought about by the Companies Act 2006 (2006 Act). Under the 2006 Act, the Memorandum of Association serves a more limited role as historical evidence of the formation of the company. Since August 2010, the provisions in relation to objects in BT's Memorandum are deemed to form part of BT's Articles, and have been deleted from those Articles because of shareholders passing a resolution to this effect. Under the 2006 Act, BT's objects are unrestricted.

Articles

(a) Voting rights

In the following description of the rights attaching to the shares in the company, a 'holder of shares' and a 'member' is, in either case, the person registered in the company's register of members as the holder of the relevant shares.

Subject to certain restrictions, on a show of hands, every member present in person or by proxy at any general meeting has one vote and, on a poll, every member present in person or by proxy has one vote for each share which they hold.

Voting at any meeting of members is by a show of hands unless a poll is demanded by the chairman of the meeting or by any member at the meeting who is entitled to vote (or the member's proxy).

(b) Changes in capital

The company may by ordinary resolution:

(i) consolidate, or consolidate and then divide, all or any of its share capital into shares of a larger amount than its existing shares;
(ii) divide its shares, or any of them, into shares of a smaller amount and the resolution may decide that, as between the shares resulting from the division, any of them may have any preference or advantage as compared with the others.

INFORMATION FOR SHAREHOLDERS continued

The company may also:

(i) buy back its own shares; and
(ii) by special resolution reduce its share capital, any capital redemption reserve and any share premium account.

(c) Dividends
The company's members can declare dividends by passing an ordinary resolution, in addition to the powers of the Board, but no dividend can exceed the amount recommended by the Board. Dividends must be paid out of profits available for distribution. If the directors consider that the profits of the company justify such payments, they can pay interim and final dividends. Fixed dividends will be paid on any class of share on the dates stated for the payments of those dividends.

Any dividend which has not been claimed for 10 years after it was declared or became due for payment will be forfeited and belong to the company again unless the directors decide otherwise.

(d) Distribution of assets on winding up
If the company is wound up (whether the liquidation is voluntary, under supervision of a court or by a court) the liquidator can, with the authority of a special resolution passed by the members, divide among the members all or any part of the assets of the company.

This applies whether the assets consist of property of one kind or different kinds. For this purpose, the liquidator can place whatever value the liquidator considers fair on any property and decide how the division is carried out between members or different groups of members. The liquidator can also, with the same authority, transfer any assets to trustees upon trusts for the benefit of members which the liquidator decides. The liquidation of the company can then be finalised and the company dissolved. No past or present members can be compelled to accept any shares or other property under BT's Articles which could give them a liability.

(e) Transfer of shares
Shares of the company may only be transferred in writing and either in the usual form or another form approved by the Board. A transfer form must be signed or made effective in some other way, by or on behalf of the person making the transfer and, unless the share is fully paid, by or on behalf of the person to whom the shares are being transferred.

(f) General meetings
The Board can decide to call general meetings. If there are not enough directors in the UK to call a general meeting, any director or member may call a general meeting.

(g) Limitations on rights of non-resident or foreign shareholders
There are no limitations on the rights of non-resident or foreign shareholders.

(h) Directors

Directors' remuneration

The directors are entitled to the remuneration set by the company by an ordinary resolution. The directors may be paid their expenses properly incurred in connection with the business of the company.

The directors can decide whether to provide pensions, annual payments or other allowances or benefits to any people including people who are or were directors of the company. The Board can decide to extend these arrangements to relations or dependants of, or people connected to these people. The Board can also decide to contribute to a scheme or fund or to pay premiums to a third party for these purposes. However, the company can only provide pension and other similar benefits to any director or former director who has not been employed by or held any other office or executive position, in BT Group plc or any of its subsidiary undertakings, including the company, or to relations or dependants of, or people connected to, those directors or former directors, if the members approve this by passing an ordinary resolution.

(i) Directors' votes
A director need not be a member, but a director who is not a member can still attend and speak at members' meetings. Unless BT's Articles say otherwise, a director cannot vote on a resolution about a contract in which the director has an interest (this will also apply to interests of a person connected with the director).

If the legislation allows, a director can vote and be counted in the quorum on a resolution concerning a contract:

(I) in which the director has an interest of which the director is not aware; or which cannot reasonably be regarded as likely to give rise to a conflict of interest;

INFORMATION FOR SHAREHOLDERS continued

(II) in which the director has an interest only because the director is a holder of shares, debentures or other securities of BT, or by reason of any other interest in or through BT;
(III) which involves the giving of any security, guarantee or indemnity to the director or any other person for: money lent or obligations incurred by the director or by any other person at the request of or for the benefit of BT or the benefit of any of its subsidiary undertakings; or a debt or other obligation which is owed by BT or any of its subsidiary undertakings to that other person if the director has taken responsibility for all or any part of that debt or obligation by giving a guarantee, security or indemnity;
(IV) where BT or any of its subsidiary undertakings is offering any shares, debentures or other securities for subscription or purchase to which the director is or may be entitled to participate as a holder of BT or BT Group plc securities; or where the director will be involved in the underwriting or sub-underwriting;
(V) relating to any other company in which the director has an interest, directly or indirectly (including holding a position in that company) or is a shareholder, creditor, employee or otherwise involved in that company. These rights do not apply if the director owns 1% or more of that company or of the voting rights in that company;
(VI) relating to an arrangement for the benefit of BT employees or former employees of BT or any of BT's subsidiary undertakings which only gives the directors the same benefits that are generally given to the employees or former employees to whom the arrangement relates;
(VII) relating to BT buying or renewing insurance for any liability for the benefit of directors or for the benefit of persons who include directors;
(VIII) relating to the giving of indemnities in favour of directors;
(IX) relating to the funding of expenditure by any director or directors: on defending criminal, civil or regulatory proceedings or actions against the director or the directors; in connection with an application to the court for relief; or on defending the director or the directors in any regulatory investigations; or which enables any director or directors to avoid incurring expenditure as described in this paragraph; and
(X) in which the director's interest, or the interest of directors generally, has been authorised by an ordinary resolution.

Subject to the relevant legislation, the members can by passing an ordinary resolution ratify any particular contract or arrangement carried out in breach of those provisions.

(j) Retirement of directors
No person will be prevented from being or becoming a director simply because that person has reached the age of 70.

(k) Directors' borrowing powers
To the extent that the legislation and BT's Articles allow, the Board may exercise all the powers of the company to borrow money, to mortgage or charge its business, property and assets (present and future) and to issue debentures and other securities, and give security either outright or as collateral security for any debt, liability or obligation of the company or another person.

Further note on certain activities
In addition, under Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13 (r) to the Securities Exchange Act of 1934, we are required to disclose whether BT or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or certain designated individuals or entities. Disclosure is required even when the activities were conducted outside the US by non-US entities and even when they were conducted in compliance with applicable law.

During 2016/17, certain of the group's non-US subsidiaries or other non-US entities conducted limited activities in, or with persons from, certain countries identified by the US Department of State as State Sponsors of Terrorism or otherwise subject to US sanctions. These activities, which generally relate to the provision of communications services to embassies and diplomatic missions of US-allied governments, other Communication Providers, news organisations, multinational corporations and other customers that require global communications connectivity, are insignificant to the group's financial condition and results of operations.

BT has a contract in place with Telecommunication InfrastructureCompany (TIC), to make and receive voice calls from Iran to the UK.

BT entered into a Framework Agreement with Rafsanjan Industrial Complex (RIC) for business consultancy services in May 2010 and provided an initial consultancy engagement under phase 1 of the agreement. In February 2011, phase 2 was agreed with RIC however BT stopped work in December 2011 due to the geopolitical situation. RIC made an

INFORMATION FOR SHAREHOLDERS continued

advance payment to BT of €384,120 to carry out the phase 2 work. We continue to explore whether the amount can be refunded.

BT's subsidiary, EE (the acquisition of which was completed on 29 January 2016), has in place roaming partner agreements with Mobile Company of Iran (MCI), and Taliya Company (also known as Rafsanjan Industrial Complex). These bilateral agreements allow the transmission of mobile calls. There has been no traffic with Taliya in 2016/17. The amounts received by EE under these contracts were less than £405,000. In addition, EE also exchanges SMS traffic with MCI, Mobile Telecommunications Company of Esfahan and Telecommunication Kish Company. The amounts received by EE under these contracts were less than £6,500.

In addition, during our integration of the EE business, we discovered a roaming agreement between EE and Syriatel Mobile Telecom, an entity designated under UK/EU sanctions. Following an internal investigation, we ceased providing services under the agreement and made a voluntary disclosure to HM Treasury. We are also investigating whether there are additional implications under other sanctions regimes. EE is now fully subject to BT's sanctions compliance policies and procedures.

Limitations affecting security holders

There are no limitations under the laws of the United Kingdom restricting the right of non-residents to hold or to vote shares in the company.

Documents on display

All reports and other information that BT files with the US Securities and Exchange Commission (SEC) may be inspected at the SEC's public reference facilities at Room 1580, 100 F Street, NE Washington, DC, 20549, US. These reports may be accessed via the SEC's website at www.sec.gov.

Material contracts

The contracts summarised below (not being entered into in the ordinary course of business) have been entered into in the two years preceding the date of this document by BT Group plc or another member of the group and are, or may be, material to the group or have been entered into by, BT Group plc or another member of the group and contain a provision under which a member of the group has an obligation or entitlement which is, or may be, material to, BT Group plc or such other member of the group.

Definitions

The definitions apply to the following section titled: **Acquisition of EE – summary of the principal terms.**

Acquisition: the acquisition by BT of EE

Articles: the articles of association of BT in force from time to time

Board: the Directors of the Company from time to time

BT Pension Scheme: BT's main defined benefit pension scheme

Buy-Back Resolution: the resolution to approve the buy-back of Ordinary Shares from Deutsche Telekom and/or Orange pursuant to the CP Contracts

CP Contracts: the DT CP Contract and Orange CP Contract

Company: BT Group plc

Completion: completion of the Acquisition pursuant to the terms of the Share Purchase Agreement which occurred on 29 January 2016

Consideration Shares: the Ordinary Shares to be issued by the Company to the Sellers pursuant to the Share Purchase Agreement

Directors or Board of Directors: the directors of the Company whose names appear in the section in the shareholder circular entitled *Directors, Company Secretary, Registered Office and Advisers*

Financial Investor: a Qualified Institutional Buyer as defined in Rule 144A under the US Securities Act 1933 or a Qualified Investor as described in Section I(1) of Annex II to Directive 2004/39/EC, other than any activist fund, or any company licensed as a telecommunications operator (or its affiliates)

INFORMATION FOR SHAREHOLDERS continued

Ordinary Shares: the ordinary shares of nominal value 5 pence each in the capital of the Company, including, if the context requires, the Consideration Shares

Sellers: Deutsche Telekom and Orange

Shareholder: a holder of Ordinary Shares and “Shareholders” shall be construed accordingly Sponsor: JP Morgan Cazenove

Transaction Documents: the Share Purchase Agreement, the Relationship Agreement, the Standstill and Lock-up Agreement and the CP Contracts

ACQUISITION OF EE – SUMMARY OF THE PRINCIPAL TERMS

Share Purchase Agreement

On 5 February 2015, the Share Purchase Agreement was entered into between the Company, the Sellers, who held 100% of the issued share capital of EE on a combined basis, Deutsche Telekom AG as guarantor of Deutsche Telekom and Orange SA as guarantor of Orange. Pursuant to the Share Purchase Agreement, the Sellers agreed to sell, and the Company agreed to acquire, the entire issued share capital of EE. The Acquisition completed on 29 January 2016.

1. Seller Warranties, Indemnities and Covenants

1.1 Warranties

The Share Purchase Agreement contains customary warranties given by the Sellers, including in relation to authorisations, valid obligations, filings and consents for the entry of the Sellers into the Transaction Documents, and including in relation to the EE Group, its share capital, accounts and financial condition, material licences and approvals, compliance with laws, condition and sufficiency of its network and assets, tax, material contracts, related party arrangements, litigation, IP and IT systems, employees and benefit arrangements, pension schemes, real estate and ownership and conduct of the MBNL joint venture arrangement.

1.2 Indemnities

The Sellers agreed, amongst other things, to indemnify BT in the event that BT suffers loss as a result of certain regulatory fines being levied against BT or the EE Group, and against losses suffered by BT or the EE Group as a result of certain other investigations and disputes.

The warranties and indemnities given by the Sellers are subject to customary financial and other limitations.

1.3 Covenants

The Share Purchase Agreement contains customary covenants restricting the Sellers from competing with EE's business for a period of three years following Completion (subject to customary exceptions for existing businesses and financial investments) and from soliciting employees of the EE Group for a period of two years following Completion (subject to customary exceptions).

The Share Purchase Agreement also contains a customary tax covenant in respect of liability for taxes due pre and post-Completion.

2. Company Warranties and Indemnity

The Share Purchase Agreement contains warranties given by the Company as to, amongst other things, its capacity and authority to enter into and perform its obligations under the Transaction Documents, compliance by the Company in all material respects with certain laws and regulations, the availability of financing for the cash element of the consideration for the Acquisition, the accuracy of its public filings, and there having been no material adverse change to its financial position since its last accounts date.

BT also agreed that it will indemnify the Sellers in the event that they suffer loss as a result of BT having taken certain actions in respect of the EE defined benefit pension scheme or the BT defined benefit pension scheme (but in relation to the BT Pension Scheme, only where Deutsche Telekom is identified as being connected to BT by virtue of the appointment of a Director to the Board by the Deutsche Telekom Group).

The warranties and indemnity given by BT are subject to customary financial and other limitations.

3. Other undertakings

The Sellers and BT agreed the scope and terms of certain transitional services arrangements required after Completion. The purpose of these transitional services agreements is to document any services that are currently provided by a party (or a member of its group) and that the recipient of those services wishes to continue to receive for a transitional period from Completion. Any services that a service recipient elects to continue to receive from Completion will be provided on the current terms or agreement applicable to the provision and receipt of those services. Unless otherwise agreed, the maximum term of each service is between six and 18 months depending on the type of service.

The Sellers (or the relevant members of their groups), BT, and EE agreed appropriate conditions for the continued use of the Orange or T-Mobile (as applicable) brands by EE. Such agreement included appropriate modifications to the existing brand licences to reflect the change in ownership of EE, and continued use of the brands will be for the purpose of an orderly wind-down and extraction of the Orange and T-Mobile brands from EE's business and subject to the continued payment of royalties.

BT has also undertaken to Deutsche Telekom AG to provide, from Completion, a back-to-back guarantee of Deutsche Telekom AG's guarantee to Hutchison, to a maximum value of £750 million. Deutsche Telekom AG's existing arrangement guarantees EE's obligations in respect of any liability incurred by EE under the MBNL joint operation.

4. Guarantee
Deutsche Telekom AG agreed to guarantee the performance by Deutsche Telekom, and Orange S.A. agreed to guarantee the performance by Orange, of their respective obligations under the Share Purchase Agreement.

Relationship Agreement
1. Relationship Agreement with Deutsche Telekom AG and Deutsche Telekom
At Completion, BT entered into the Relationship Agreement with Deutsche Telekom AG and Deutsche Telekom, which regulates aspects of the ongoing relationship between BT, Deutsche Telekom AG and the Deutsche Telekom Group.

The Relationship Agreement will terminate if (a) the Ordinary Shares are no longer listed on the premium listing segment of the Official List and traded on the London Stock Exchange's main market for listed securities or (b) the Deutsche Telekom Group ceases to be interested in more than 3% of the issued ordinary share capital of BT.

The Relationship Agreement contains, among other things, undertakings from Deutsche Telekom AG that for such period as the Deutsche Telekom Group holds 10% or more of the issued share capital of BT:

(i) transactions and arrangements between BT and the Deutsche Telekom Group will be entered into on an arm's length basis and on normal commercial terms;
(ii) neither it nor any member of the Deutsche Telekom Group will take any action that would have the effect of preventing BT from complying with its obligations under the Listing Rules; and
(iii) neither it nor any member of the Deutsche Telekom Group will propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the Listing Rules (the "Independence Provisions").

Deutsche Telekom AG undertakes to procure the compliance of its group members with the Independence Provisions.

2. Standstill Provisions
The Relationship Agreement contains standstill provisions pursuant to which Deutsche Telekom AG undertakes on behalf of itself and the Deutsche Telekom Group for a period of three years from the date of the Relationship Agreement (the "Initial Standstill Period"), subject to certain exceptions, not to:

(i) acquire or offer to acquire any interest in any shares or other securities of BT as a result of which the aggregate interest of the Deutsche Telekom Group and any of its concert parties increases above 12% of Ordinary Shares in issue at any time;
(ii) act in concert with any person with respect to the holding, voting or disposition of any shares or other securities of BT;
(iii) solicit or participate in any solicitation of Shareholders to vote in a particular manner at any meeting of Shareholders; or
(iv) actively or publicly make any proposals for any merger, consolidation or share exchange involving shares or other securities of BT (for the purposes of this Part only, the "Standstill Provisions").

The exceptions to the Standstill Provisions include circumstances:

(i) where the Deutsche Telekom Group acquires an interest in any shares or other securities of BT from the Orange Group provided that such acquisition does not increase the aggregate interest of the Deutsche Telekom Group and its concert parties above 15% of the Ordinary Shares in issue;
(ii) where the Deutsche Telekom Group announces an offer under Rule 2.7 of the City Code on Takeovers and Mergers (the "Code") or takes any action requiring it to make an offer under Rule 9 of the Code, in each case if such offer is recommended by the Directors of BT;
(iii) where any third party makes or announces under Rule 2.7 of the Code an offer to acquire the issued ordinary share capital of BT, whether such offer is recommended by the Directors of BT or not; and
(iv) where BT makes any offering or issue of shares or other securities and the Deutsche Telekom Group takes up its rights to subscribe for or acquire the shares or other securities offered to it by BT.

Under the Relationship Agreement, Deutsche Telekom AG undertakes, among other things, that for a period of two years from the expiry of the Initial Standstill Period, in the event that the Deutsche Telekom Group acquires (other than as a result of a reduction or re-organisation of share capital or re-purchase of shares or other securities of BT) any Shares in excess of 15% of the Ordinary Shares in issue (the "Excess Shares"), it shall procure that the votes attaching to such Excess Shares shall be exercised (subject to the provisions of the Code and applicable law or regulation) in accordance with the recommendation of the Board of Directors of BT on all shareholder resolutions which relate to a transfer of an interest in Ordinary Shares carrying in aggregate 30% or more of the voting rights of BT and on all special resolutions of BT. After expiry of the Initial Standstill Period, the Deutsche Telekom Group will otherwise be free to increase its shareholding in BT.

3. Lock-up Provisions
The Relationship Agreement contains lock-up provisions pursuant to which Deutsche Telekom AG and Deutsche Telekom undertake for a period of 18 months from the date of the Relationship Agreement, subject to certain exceptions, that neither they nor any of their group members will, directly or indirectly, offer, sell, contract to sell, grant or sell options over, purchase any option or contract to sell, transfer, charge, pledge, grant any right or warrant or otherwise transfer, lend or dispose of any shares in BT or any securities convertible into or exercisable or exchangeable for such shares, or announce or otherwise publish an intention to do any of the foregoing (each of the above activities being a "Disposal"). The exceptions include:

(i) where Deutsche Telekom AG or Deutsche Telekom accepts any offer by a third party for the whole of the ordinary share capital of BT, whether by tender offer or scheme of arrangement, or provides an irrevocable undertaking or letter of intent to accept or vote in favour of any such offer;
(ii) any Disposal to any member of the Deutsche Telekom Group, provided that the transferee agrees to be bound by the restrictions of the Relationship Agreement; and
(iii) any sale of shares via any single off-market trade to a Financial Investor of no more than 5% each of the Ordinary Shares in issue of BT (or, on one occasion only, the sale of two stakes of not more than 5% each at the same time to two different Financial Investors), provided that any transferee enters into a lock-up agreement on substantially similar terms to the lock-up provisions of the Relationship Agreement.

4. DT CP Contract
Prior to any Disposal by Deutsche Telekom AG, Deutsche Telekom or any of their group members in accordance with paragraph 3(iii) above, BT has a right of first offer in relation to the relevant shares (subject to the passing of the Buy-Back Resolution), and such right is set out in the DT CP Contract.

Pursuant to the DT CP Contract, prior to an intended Disposal to Financial Investors, the relevant selling entity is obliged to issue a notice to BT specifying the number of Ordinary Shares proposed to be sold or transferred. BT has nine Business Days within which to make an offer for all of the Ordinary Shares detailed in the notice, or else its right to make an offer will lapse. If the offer is not accepted, the selling entity may make the sale or transfer within three months of the delivery of the notice to BT at a price equal to or greater than the price offered by BT. If BT does not make an offer within the allotted time, the selling entity may sell the Ordinary Shares within three months of the delivery of the notice to BT at any price. The DT CP Contract will terminate 18 months from Completion.

The notice from the selling entity may be issued to BT during a close period or prohibited period (as such terms are defined in the Model Code of Chapter 9 of the Listing Rules) of BT. If any such period does not expire prior to the end of the nine Business Day period within which BT may elect to make an offer to buy-back the shares, BT will not be able to exercise its right of first offer.

When exercised in conjunction with BT's right of first offer in relation to Ordinary Shares held by Orange and Orange SA, the maximum amount of Ordinary Shares BT can acquire by exercise of its rights of first offer is approximately 14% of BT's share capital on an enlarged basis post-Acquisition. The price at which Ordinary Shares can be bought back shall be no more than the higher of the closing price of the Ordinary Shares on (i) the date on which BT makes an offer to buy-back the Ordinary Shares and (ii) the last trading day before the buy-back takes place. In addition, BT has separately undertaken to give the Sponsor prior notice of its intention to make an offer for Ordinary Shares under the DT CP Contract, to consult with the Sponsor regarding such offer and not to make such offer unless at the relevant time the Board, having been so advised by the Sponsor, considers such offer to be fair and reasonable as far as Shareholders are concerned. After expiry of the lock-up period described above, the Deutsche Telekom Group will be free to dispose of its shareholding in BT without further restriction.

5. Rights of Deutsche Telekom AG
Under the Relationship Agreement, subject to compliance with any applicable regulatory requirements, Deutsche Telekom AG is able to appoint one Non-Executive Director (the "Deutsche Telekom Representative Director") to the Board for so long as the Deutsche Telekom Group holds 10% or more of the issued share capital of BT (provided that, if

the shareholding is reduced below 10% as a result of a non-pre-emptive share issuance by BT, the board appointment right shall continue for as long as the Deutsche Telekom Group holds at least 8% of BT's shares but provided further that such reduced shareholding shall not have occurred as a result of the Deutsche Telekom Group selling Ordinary Shares, and also provided that the Deutsche Telekom Group must top up to 10% within 12 months or the right will lapse). Any such appointment shall be made in consultation with the BT Nominating & Governance Committee and the appointee must be approved by the BT Chairman (such approval not to be unreasonably withheld or delayed).

The Relationship Agreement provides for the establishment of a new committee of BT (the "Conflicted Matters Committee") which shall assess whether and to what extent the Board papers and Board meetings of BT are likely to consider or refer to any matter in respect of which the Conflicted Matters Committee believes that either:

(i) BT and the Deutsche Telekom Group are competitors; or
(ii) there is an actual or potential conflict of interest between BT and the Deutsche Telekom Group (a "Conflicted Matter").

The Conflicted Matters Committee shall comprise of at least three members including at all times the Secretary to the Board, the Head of Competition and Regulatory Law and the Director of Governance. The Deutsche Telekom Representative Director shall not be a member of the Conflicted Matters Committee. The Deutsche Telekom Representative Director shall not attend any Board meeting of BT unless a senior compliance officer of Deutsche Telekom AG has received prior confirmation that the Conflicted Matters Committee has considered whether such attendance raises any concerns in relation to a Conflicted Matter. In the event that the Conflicted Matters Committee has a serious or immediate concern in relation to a Conflicted Matter, the Deutsche Telekom Representative Director shall not attend any Board meetings in relation to the Conflicted Matter and shall not receive any information in relation to the Conflicted Matter.

Deutsche Telekom AG is also entitled to receive, subject to compliance by BT with its legal and regulatory obligations, such financial or other information in relation to the BT Group as is necessary or reasonably required by Deutsche Telekom AG in order to comply with its reporting requirements and legal, regulatory or tax obligations.

Standstill and Lock-up Agreement with Orange SA and Orange
1. Standstill and Lock-up Agreement
BT entered into a Standstill and Lock-up Agreement with Orange SA and Orange on Completion, which regulates the ability of the Orange Group to deal in shares and other securities of BT. The Standstill and Lock-up Agreement terminates if (a) the Ordinary Shares are no longer listed on the premium listing segment of the Official List and admitted to trading on the London Stock Exchange's main market for listed securities or (b) the Orange Group ceases to be interested in more than 3% of the issued ordinary share capital of BT.

2. Standstill Provisions
The Standstill and Lock-up Agreement contains standstill provisions pursuant to which Orange SA undertakes on behalf of itself and its group for a period of three years from the date of the Standstill and Lock-up Agreement, subject to certain exceptions, not to:

(i) acquire or offer to acquire any interest in any shares or other securities of BT as a result of which the aggregate interest of the Orange Group and its concert parties increases above 4% of Ordinary Shares in issue at any time;
(ii) act in concert with any person in respect of the holding, voting or disposition of any shares or other securities of BT;
(iii) solicit or participate in any solicitation of Shareholders to vote in a particular manner at any meeting of the Shareholders; or
(iv) actively or publicly make any proposals for any merger, consolidation or share exchange involving shares or other securities of BT (for the purposes of this Part only, the "Standstill Provisions").

The exceptions to the Standstill Provisions include:

(i) where the Orange Group announces an offer under Rule 2.7 of the Code or takes any action requiring it to make an offer under Rule 9 of the Code, in each case if such offer is recommended by the Directors of BT;
(ii) where any third party makes or announces under Rule 2.7 of the Code an offer to acquire the issued ordinary share capital of BT, whether such offer is recommended by the Directors of BT or not; and
(iii) where BT makes any offering or issue of shares or other securities and the Orange Group takes up its rights to subscribe for or acquire the shares or other securities offered to it by BT.

After expiry of the standstill period, the Orange Group will otherwise be free to increase its shareholding in BT.

3. Lock-up Provisions
The Standstill and Lock-up Agreement contains lock-up provisions pursuant to which Orange SA and Orange undertake for a period of 12 months from the date of the Standstill and Lock-up Agreement, subject to certain exceptions, that neither they nor any of their group members will, directly or indirectly, effect any Disposal. The exceptions include:

(i) any Disposal to the Deutsche Telekom Group;
(ii) where Orange SA or Orange accepts any offer by a third party for the whole of the ordinary share capital of BT, whether by tender offer or scheme of arrangement, or provides an irrevocable undertaking or letter of intent to accept or vote in favour of any such offer;
(iii) any Disposal to any member of the Orange Group, provided that the transferee agrees to be bound by the restrictions of the Standstill and Lock-up Agreement;
(iv) any sale of shares via any single off-market trade to a Financial Investor of up to all the shares of BT in which the Orange Group has an interest, provided that the transferee enters into a lock-up agreement on substantially similar terms to the lock-up provisions of the Standstill and Lock-up Agreement; and
(v) if the Orange Group owns 2% or less of the issued ordinary share capital of the Company, any Disposal which is by way of a swap or other agreement to transfer the economic ownership of the shares.

4. Orange CP Contract
Prior to any Disposal by Orange SA, Orange or any of their group members, in accordance with paragraph 3(iv) above, BT has a right of first offer in relation to the relevant shares (subject to the passing of the Buy-Back Resolution), and such right is set out in the Orange CP Contract.

Pursuant to the Orange CP Contract, prior to an intended Disposal to Financial Investors, the relevant selling entity is obliged to issue a notice to BT specifying the number of Ordinary Shares proposed to be sold or transferred. BT has nine Business Days within which to make an offer for all of the shares detailed in the notice, or else its right to make an offer will lapse. If the offer is not accepted, the selling entity may make the sale or transfer within three months of the delivery of the notice to BT at a price equal to or greater than the price offered by BT. If BT does not make an offer within the allotted time, the selling entity may sell the Ordinary Shares within three months of the delivery of the notice to BT at any price. The Orange CP Contract will terminate 12 months from Completion.

The notice from the selling entity may be issued to BT during a close period or prohibited period (as such terms are defined in the Model Code of Chapter 9 of the Listing Rules) of BT. If any such period does not expire prior to the end of the nine Business Day period within which BT may elect to make an offer to buy-back the shares, BT will not be able to exercise its right of first offer.

When exercised in conjunction with BT's right of first offer in relation to Ordinary Shares held by Deutsche Telekom AG and Deutsche Telekom, the maximum amount of Ordinary Shares BT can acquire by exercise of its rights of first offer is approximately 14% of BT's share capital on an enlarged basis post-Acquisition. The price at which Ordinary Shares can be bought back shall be no more than the higher of the closing price of the Ordinary Shares on (i) the date on which BT makes an offer to buy-back the Ordinary Shares and (ii) the last trading day before the buy-back takes place. After expiry of the lock-up period described above, the Orange Group will be free to dispose of its shareholding in BT without further restriction.

CROSS REFERENCE TO FORM 20-F

The information in this document that is referred to in the following table shall be deemed to be filed with the Securities and Exchange Commission for all purposes. None of the websites referred to in this Annual Report 2017, including where a link is provided, nor any of the information contained on such websites is incorporated by reference in the Form 20-F:

Required Item in Form 20-F Item		Where information can be found in this Annual Report Section	Page
4	**Information on the company**		
4A	History and development of the company	Additional information	
		Information for shareholders	
		Background	228
		Group performance	
		Capital expenditure	93
		Report of the Directors	
		Statutory information	
		Capital management and funding policy	99
4B	Business overview	Overview	3
		Our strategy	4
		How we're doing	6
		Key performance indicators	10
		Our business model	11
		Resources, relationships and sustainability	15
		Our lines of business	53
		Consolidated financial statements	
		Notes to the consolidated financial statements	
		Segment information	129
		Additional information	
		Information for shareholders	
		Cautionary statement regarding forward-looking statements	227
		Further note on certain activities	230
4C	Organisational structure	Overview	3
4D	Property, plants and equipment	Related undertakings	206
		Resources, relationships and sustainability	
		Our networks and physical assets	19
		Properties	21
		Consolidated financial statements	
		Notes to the consolidated financial statements	
		Property, plant and equipment	144
5	**Operating and financial review and prospects**		
5A	Operating results	Our lines of business	53
		Group performance	88
		Our relationship with HM Government	28
		Regulation	28
		Protecting the environment	32
		Our performance as a sustainable and responsible business	35
		Additional information	
		Alternative performance measures	225
		Information for shareholders	
		Cautionary statement regarding forward-looking statements	227
5B	Liquidity and capital resources	Group performance	88
		Additional information	
		Information for shareholders	
		Cautionary statement regarding forward-looking statements	227

Required Item in Form 20-F Item		Where information can be found in this Annual Report Section	Page
		Consolidated financial statements	
		Notes to the consolidated financial statements	
		Loans and other borrowings	165
		Financial instruments and risk management	169
		Financial commitments and contingent liabilities	178
5C	Research and development, patents and licences	Resources, relationships and sustainability	
		Research and development	21
5D	Trend information	Group performance	88
		Additional information	
		Information for shareholders	
		Cautionary statement regarding forward-looking statements	227
5E	Off-balance sheet arrangements	Report of the Directors	
		Statutory information	
		Off-balance sheet arrangements	100
5F	Tabular disclosure of contractual obligations	Group performance	
		Contractual obligations and commitments	98
6	**Directors, senior management and employees**		
6D	Employees	Resources, relationships and sustainability	
		Our people	15
		Consolidated financial statements	
		Notes to the consolidated financial statements	
		Employees	134
7	**Major shareholders and related party transactions**		
7B	Related party transactions	Consolidated financial statements	
		Notes to the consolidated financial statements	
		Related party transactions	177
8	**Financial information**		
8A	Consolidated statements and other financial information	See Item 18 below	
		Report of the Directors	
		Statutory information	
		Dividend	99
		Legal proceedings	100
		Group performance	
		Dividends	92
		Consolidated financial statements	
		Notes to the consolidated financial statements	
		Financial commitments and contingent liabilities	178
		Additional information	
		Information for shareholders	
		Articles of Association (Articles)	
		Dividends	229
8B	Significant changes	Report of the Directors	
		Statutory information	
		Going concern	100
10	**Additional information**		
10B	Memorandum and articles of association	Additional information	
		Information for shareholders	
		Articles of Association (Articles)	228
10C	Material contracts	Additional information	
		Information for shareholders	
		Material contracts	231

Required Item in Form 20-F Item		Where information can be found in this Annual Report Section	Page
10D	Exchange controls	Additional information	
		Information for shareholders	
		Limitations affecting security holders	231
10H	Documents on display	Additional information	
		Information for shareholders	
		Documents on display	231
11	**Quantitative and qualitative disclosures about market risk**	Consolidated financial statements	
		Notes to the consolidated financial statements	
		Significant accounting policies	
		Financial instruments	127
		Financial instruments and risk management	169
15	**Controls and Procedures**	Report of the Directors	
		Statutory information	
		UK Internal control and risk management	101
		US Sarbanes-Oxley Act of 2002	102
		Report of Independent Registered Public Accounting Firm	108
16C	**Principal accountants fees and services**	Report of the Directors	
		Statutory information	
		Audit tender	101
		Consolidated financial statements	
		Notes to the consolidated financial statements	
		Audit, audit related and other non-audit services	135
18	Financial statements	Report of Independent Registered Public Accounting Firm	108
		Consolidated financial statements	109
		Notes to the consolidated financial statements	114

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