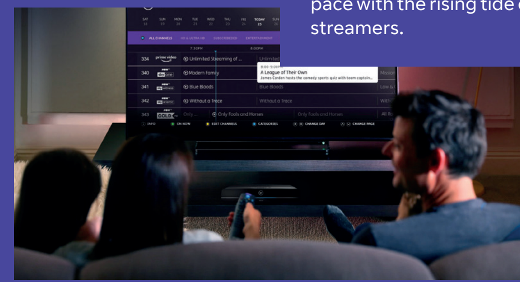
We're investing in the future...

... of new products and services

We launched BT Halo, our best ever converged connectivity package.

... of flexible TV packages

Our range of new flexible TV packages aims to disrupt the UK's pay TV market and keep pace with the rising tide of streamers.



... of next generation fibre broadband

We expect to invest around £12bn to connect 20m premises by mid-to-late-20s if the conditions are right.

... of our best-in-class network

5G makes a measurable difference to everyday experiences and opens up even more exciting new experiences.

... to keep us all connected

During the pandemic, we're helping those who need us the most.

... to enable a safer world

This year, we used artificial intelligence (AI) to anticipate emerging threats and help protect the nation from up to 4,000 cyberattacks a day.

... giving people skills for tomorrow

BT's Skills for Tomorrow programme aims to empower everyone with the digital skills they need today, to help build their tomorrow.

... of our colleagues and workplace

We're giving our people a louder voice at the table with our new *Colleague Board*.

... to help families, businesses and communities reach their full potential.

To read these stories and more – visit our online annual review and see how we're helping the UK go beyond limits.

bt.com/annualreview

Contents

Look out for these throughout the report:

- Reference to another page in the report
- Reference to further reading online
- Significant accounting policies
- Critical accounting estimates and key judgements
- Covid-19 impact

For more information

bt.com/about
bt.com/annualreview

Digital Impact and Sustainability Report

This Strategic report was approved by the Board on 6 May 2020.

By order of the Board.

Rachel Canham
Company Secretary & General Counsel, Governance
6 May 2020

Please see the cautionary statement regarding forward-looking statements on page 208.

Pages 1 to 64 form the Strategic report. It includes Our business model, Strategic progress, Our key performance indicators, Group performance and Our principal risks and uncertainties.

The Corporate Governance section on pages 65 to 116 forms the Report of the directors and includes the Report on directors' remuneration.

A message from our Chairman

> Although the magnitude of the Covid-19 crisis only became clearer as our 2019/20 financial year was drawing to a close, it has inevitably had a major impact on my reflections on the past year, whilst strongly reinforcing the opportunities I see in our future.

The multiple challenges posed by the virus have served to highlight the vital role BT plays in supporting families, businesses and communities across the UK and beyond.

BT is a force for good and I am proud of the way in which the company has risen to the complex and demanding tasks involved in keeping our customers and the societies we serve connected during the pandemic.

The resilience and performance of our networks have been fundamental – supporting our critical public services, keeping customers online, and breaking down the barriers of isolation for families. This is a human effort, as well as a technological one, and I pay tribute to the thousands of our key workers whose endeavours have kept everyone connected.

Despite the challenges of the Covid-19 crisis, our goal remains to create sustainable growth in value for shareholders and the Board is acutely aware of the weakness of the share price over the past year. While some of this can be ascribed to a turbulent macro-economic and political backdrop, the most significant drivers have been closer to home – an intensely competitive market has weighed on the whole sector and, for BT in particular, uncertainty around the conditions for a large-scale full fibre build has made the investment case difficult.

We share the UK Government's determination to build the next generation digital networks this country needs – illustrated by our collaboration with others in our industry to create a shared network for rural mobile coverage.

Investment requires clear and predictable regulation. Ofcom's Wholesale Fixed Telecoms Market Review (covering the five-year period starting in April 2021) set out the basis for investors to make a fair return. We are pleased by the collaborative spirit that now characterises our dealings with the regulator, though there remain issues to be resolved to support infrastructure investment. We wished departing Ofcom chief executive, Sharon White well in her new role as Chair of John Lewis and we welcome the appointment of her successor, Melanie Dawes – we look forward to working with her and her team in the months ahead.

Our strong stewardship of the network continues as we stand prepared to invest in the recently increased ambition for our full fibre build to reach 20m premises by the mid- to late-2020s, on the assumption we obtain the required critical enablers.

Financial results for the year were in line with our expectations, underpinned by the strong performance of new products and concerted management action to control costs.

Recognising the importance of dividends to our shareholders, the Board's decision in relation to the dividend has been exceptionally difficult. BT plays a key role in sustaining critical national infrastructure – as magnified by the Covid-19 crisis – and many stakeholders trust and rely on the connectivity we provide. BT also stands ready to make the biggest communications infrastructure investment in the UK in a generation – that includes building our full fibre network to 20m premises by the mid- to late-2020s.

To maintain such trust, whilst creating capacity for value-enhancing investment and navigating the unprecedented uncertainties caused by Covid-19 without compromising our credit rating, the Board concluded that the prudent and proper decision was to suspend the 2019/20 final dividend and all dividends for 2020/21, and re-base future dividends to a more sustainable level. The Board believes that this decision is in the best long-term interests of shareholders.

We expect to resume dividend payments in 2021/22, re-based to 7.7p per share. The Board expects to continue with a progressive dividend policy from this re-based level for future years.

BT's role goes beyond creating physical and digital connectivity. We also want to help people harness the power of technology to meet their needs or fulfil their potential.

To do that, they need the right skills. Over the past year, we have worked to address this through launching the Skills for Tomorrow programme which aims to reach 10m people in the UK with help to improve their digital skills by 2025. This programme offers free resources for school children, parents, young jobseekers, small businesses and older or more vulnerable people. BT volunteers also provide training and resources to help teachers deliver the computing curriculum.

The programme rapidly became one of the key planks of our response to the virus, helping isolated customers, children and small business owners with the digital skills required to cope with the period of lockdown.

In terms of the climate change challenge, our technology and communications networks have a huge role to play in enabling the innovative solutions and exponential change needed to achieve a net zero carbon economy. BT is one of the UK's largest private sector purchasers of electricity; 100% of our directly purchased electricity in the UK comes from renewable energy suppliers. For the UK, the switch to full fibre will bring a significant increase in energy efficiency. We are also working with others to drive innovation in electric vehicles to transform our fleet.

For more information read our Digital Impact & Sustainability Report at **bt.com/sustainabilityreport**

We continue to review and refresh the Board as part of succession planning and to make sure it has the right mix of skills and experience. Leena Nair and Sir Ian Cheshire joined the Board as non-executive directors in July 2019 and March 2020 respectively. They will be joined by Sara Weller CBE on 16 July 2020, immediately before the 2020 AGM. Each adds to the Board's diversity of experience and thinking. Jasmine Whitbread stepped down in December 2019 after nearly nine years as a non-executive director. Earlier this month, we announced that Adel Al-Saleh would join the Board with effect from 15 May 2020, as a non-independent, non-executive director and Deutsche Telekom's (DT's) nominated representative, replacing Tim Höttges. Finally, Nick Rose, our senior independent non-executive director will step down following the AGM after over nine years on the Board. My sincere thanks go to Nick, Tim and Jasmine for their years of service.

Our new Directors' Remuneration Policy (Policy) will be put to shareholders for approval at the upcoming AGM. Building sustainability into our reward and remuneration structures is a major priority. The Policy has been designed to ensure BT acts for the benefit of all our stakeholders, while keeping executive reward aligned with shareholders' interests.

One of the highlights of the year was the establishment of our *Colleague Board*. With members drawn from across our customer-facing and corporate units, the *Colleague Board* represents the voices and views of BT's people as an important input to our decision making. It also builds stronger engagement between the Board and our employees. Isabel Hudson, one of our non-executive directors, is the dedicated link between the Board and the *Colleague Board.*

In many ways the *Colleague Board* epitomises the spirit of teamwork with which we are transforming BT and which has been evidenced in the company's response to Covid-19. We have a long way to go and, like so many others, our task has been made tougher by recent events. But we are building strong foundations for a successful BT that continues to meet the needs of our shareholders and customers.

Jan du Plessis
Chairman
6 May 2020

A message from our Chief Executive

"When I became chief executive in February 2019, I talked of BT's systemic importance to the UK's society and economy. I did that, not to underplay our role as a leading business partner to the world's multinational organisations, but to emphasise that our mission to build a better BT for the future is in the interests of the country at large, as well as our investors.

We are here to connect for good – for the good of our customers, the good of our colleagues, and the good of our country. These principles have guided our decision making throughout the Covid-19 pandemic. Our national leadership role is central to the UK's post-Brexit fortunes and to the Government's bold ambitions for digital infrastructure; but recent months have brought it into the sharpest focus in our company's history.

I am very proud of BT's response in recent months, but equally determined that we harness that same energy as we continue to transform the company.

We delivered financial results for the year in line with our expectations. However, due to the uncertainty resulting from the Covid-19 pandemic, we have at this time decided not to provide an outlook for 2020/21.

Though the Covid-19 crisis has challenged every aspect of our business, it has affirmed that our strategic course is the right one: building strong foundations through investment and bold transformation; innovating to create standout customer experiences; leading the way to a future in which our contribution to society is an integral part of our fortunes.

One of the universal lessons of the Covid-19 crisis has been the vital importance of our strong and resilient networks. These are playing a critical role in keeping the nation running, including connecting the Nightingale field hospitals across the UK.

Last year, we worked hard to secure the conditions for a transformative investment in full fibre broadband – technology we are already building out faster than any other operator in the UK. We have also lifted our ambition to passing 20m premises with full fibre by the mid- to late-2020s with the required critical enablers – underpinning the Government's vision for the gigabit economy.

Just as we're switching fixed networks from copper to fibre, in mobile the shift from 4G to 5G has begun. We are leading the charge, initially with the EE brand which in May 2019 became the first operator to launch its 5G service. We ended 2019/20 with 5G live in almost 80 cities and large towns across the UK.

Some of its most exciting applications are for business and public services. This year we ran trials in healthcare, transportation and education, testing new frontiers opened up by this step-change in the speed and strength of connectivity.

At the core of our strategy is the convergence of BT's leading network capabilities to provide unrivalled customer experiences. For large and global customers, work is already underway on a truly differentiated software-driven solution to deliver the modular, highly automated services required for success in today's digital economy.

BT Halo – the UK's ultimate converged plan – launched recently to an outstanding response from customers: almost a third of our broadband base has already signed up to Halo.

The spirit of our new brand, encapsulated as Beyond Limits, breaks down barriers to help our customers get the most from our services and support. The brand refresh was rooted in our biggest ever launch of new products across the company. 480,000 households have been moved from copper to superfast fibre free of charge. Responding to customers, we've brought all consumer calls back to UK or Ireland contact centres a year ahead of schedule. 900 Home Tech Experts are now out and about, helping people with setup and service at home. We've taken BT back to the high street, with a presence in over 500 stores. The response has been fantastic, with great feedback and a significant upturn in the inclination of public sector, large corporate and individual customers to recommend BT to their peers.

This spirit of determined, imaginative delivery for our customers drove our response to Covid-19. Unlimited home broadband for all, no data limits for NHS workers, extra support for vulnerable customers, virtual GP consultations, enabling intensive care patients to talk with their loved ones, flexibility and support for our small business customers… the innovation and pace of delivery across these and countless other initiatives were a credit to the entire BT team.

The BT of the future will be simpler and more agile. My colleagues – the bedrock of our future success – have shown they are up to that challenge. Our engineers, contact centre staff and others who serve as key workers have been true heroes. I am unashamedly proud of them and I thank them all for their service.

Early in the year we announced that everyone who works for BT was to be made a shareholder, giving them a direct stake in our shared future. Despite the challenging economic climate, in April 2020 we reaffirmed our annual award of shares – £500 worth in the first year – alongside steps to ensure that our frontline workers were prioritised in our approach to remuneration.

Our Better Workplace Programme is consolidating BT's UK footprint to around 30 modern, future-fit locations. The past year saw good progress, with hub locations across the UK confirmed and long-term homes announced in London, Birmingham, Bristol and Manchester.

A more efficient BT is a better BT – faster, smarter, more responsive, less frustrating for customers and colleagues alike. We are forging ahead with our drive for efficiency and simplicity, automating processes to cut costs, slimming down our product portfolio and making the most of the digital opportunity for the full range of customer interactions.

Building on the £1.6bn of gross cost savings delivered last year, this end-to-end simplification programme is expected to deliver £2bn of annualised gross cost savings over the next five years. In the context of a tough trading environment for our sector and the universal economic challenges resulting from the Covid-19 crisis, we will act to build firm foundations for our business and a strong long-term value proposition for our shareholders.

We have already progressed the sale of non-core parts of our business, such as BT Fleet Solutions and our IT business for the legal profession, Tikit. Internationally, as we sharpen our customer focus on the leading transnational organisations, we are divesting some infrastructure no longer needed to deliver global services in the digital economy.

This clear strategic focus, alongside prudent control of costs and innovative investment to meet our customers' evolving needs, is what our shareholders rightly expect as we look to the future.

The next technological era is here. AI, machine learning, robotics and universal connectivity will change our world all over again. All can be a force for good, but only if we harness their power to the right ends. In recent months we have seen social media transmit malicious untruths about 5G, resulting in damage to vital infrastructure, the hindrance of health services and threats to our engineers. Yet we have also been proud to work with our partners in government to ensure that the responsible and careful harnessing of our data spurred the national public health effort.

What we do matters. We are woven into the fabric of the UK and play a vital role in delivering secure services to organisations around the world. Yet how we do it is of equal importance. We have shown that BT stands by the country, by its customers and by our own people. The months ahead will bring many further challenges but we should approach them emboldened, knowing that we have what it takes to build a stronger, better BT for the future.

Philip Jansen
Chief Executive
6 May 2020

About BT

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

What we do
We develop and sell communications propositions and services, and build and operate the networks that are essential to modern lives, businesses and communities.

How we're organised
We operate as a single business, made up of organisational units. There are customer-facing units that sell propositions and services and corporate units that support the whole group.

Financial highlights

Revenue
£22.9bn
(2)%

Change in adjusted[a] revenue
(3)%

Profit before tax
£2.4bn
(12)%

Adjusted[b] EBITDA
£7.9bn
7%

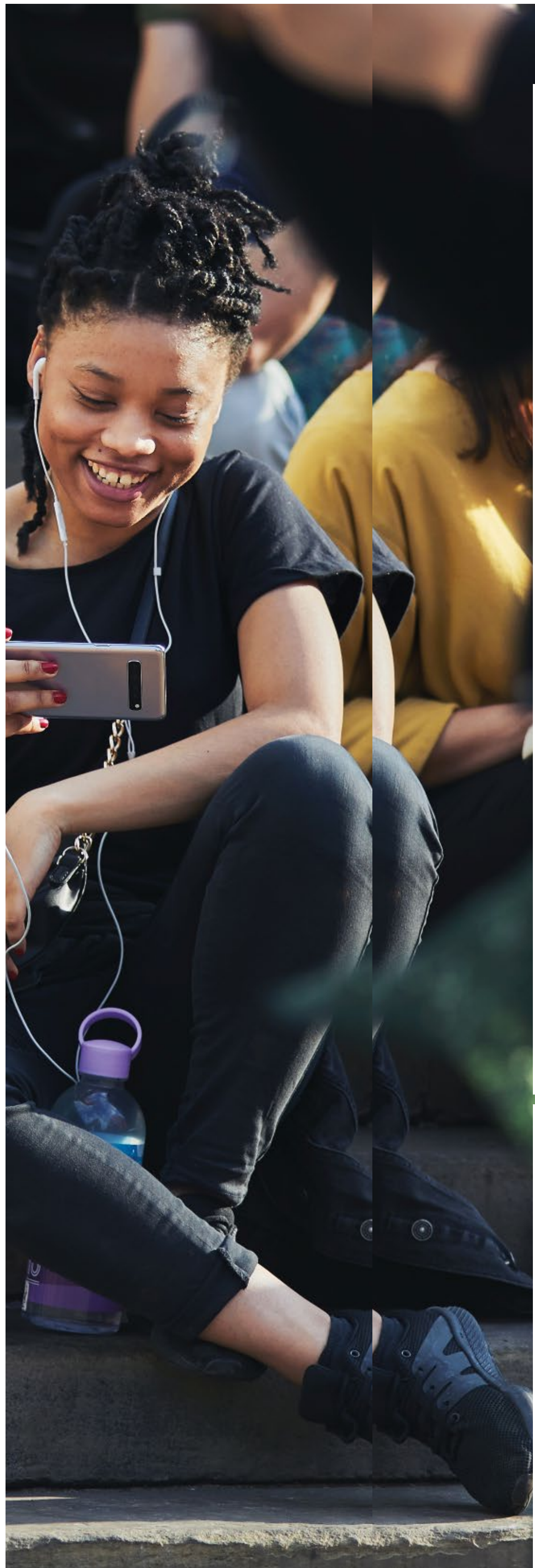
Cash flow from operating activities
£6.3bn
47%

Normalised free cash flow[c]
£2.0bn
(18)%

Basic earnings per share
17.5p
(20)%

Capital expenditure
£4.0bn
flat

[a] Items presented as adjusted are stated before specific items. See page 204 for more information.
[b] Adjusted (being before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense), as explained in the Additional information on page 204.
[c] Free cash flow after net interest paid and payment of lease liabilities, before pension deficit payments (including the cash tax benefit of pension deficit payments) and specific items as explained in the Additional information on page 206.



Our customer-facing units

Consumer
Our three brands – BT, EE and Plusnet – connect UK consumers to information, entertainment, friends and family, at home and on the move. Between them, they provide the whole of the UK with mobile, broadband, home phone and TV services.

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

Led by
Marc Allera
CEO, Consumer

Openreach
We build, and sell access to, the network that connects the UK's homes and businesses. We provide wholesale 'last mile' fixed access from homes and businesses to exchanges, and we install and maintain the fibre and copper communications networks.

Led by
Clive Selley
CEO, Openreach

Enterprise
We are the leading business communications provider in the UK. We connect more than 1m business customers and public sector organisations with our extensive portfolio of communications and IT solutions. We also provide network products and services to communications providers operating in the UK and Republic of Ireland.

We focus on four main product markets: fixed voice, mobile, fixed connectivity and IT services. We provide managed services for large networking and security contracts. Openreach provides us access to fixed-line and broadband infrastructure, and we deliver mobile phone services over EE's mobile network.

Led by
Gerry McQuade
CEO, Enterprise

Global
We are a leading business connectivity, communications and IT services provider to major multinational corporations in around 180 countries. We own an extensive global voice and data network providing managed services, security and network and IT infrastructure services, enabling customers' digital transformations.

We partner in countries worldwide for access to voice and data infrastructure and we buy enterprise technologies and equipment for our customers from the world's leading technology providers.

Led by
Bas Burger
CEO, Global

Our corporate units

Strategy and Transformation
We develop and set corporate, network and product strategies for the group. We also drive pan-BT transformation programmes.

Led by
Michael Sherman
Chief strategy and transformation officer

Technology
We design, build and operate BT's networks, platforms and IT systems. We also work with the customer-facing units to develop and roll out products and services for their customers.

Led by
Howard Watson
Chief technology and information officer

Corporate functions
The remaining corporate units carry out central activities on behalf of the group. We benefit from shared expertise and economies of scale.

These include: Finance, Legal & Company Secretarial, Corporate Affairs, Regulatory Affairs, HR, Risk, Compliance & Assurance, Property & Facilities, Procurement and Group Business Services (which provides shared services across the company).

Executive Committee

The *Executive Committee* provides input and recommendations to assist the chief executive in the day-to-day management of the business and its operations. It meets weekly and is chaired by the chief executive.

The *Executive Committee* assists the chief executive in:

- developing the group strategy and budget for the Board's approval
- executing the strategy once agreed by the Board
- providing assurance to the Board in relation to overall performance and risk management.

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

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

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

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

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

Ed Petter
Corporate affairs director
Appointed November 2016.

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

Howard Watson
Chief technology and information officer
Appointed February 2016.

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

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

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

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

Bas Burger
CEO, Global
Appointed June 2017.
Bas was formerly president, BT in the Americas, BT Global Services. Bas joined BT in 2008 as CEO Benelux.

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

Sabine Chalmers
General counsel
Appointed April 2018.

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

Gerry McQuade
CEO, Enterprise
Appointed CEO, Wholesale and Ventures in March 2016 and became CEO, Enterprise in May 2018. Gerry was formerly chief sales and marketing officer at EE responsible for the business, wholesale and product development areas which he had overseen since the merger in 2010 of Orange and T-Mobile. He joined the board of Orange in January 2008, and prior to Orange he was a founding director of Virgin Mobile.

Cathryn Ross
Regulatory affairs director
Appointed January 2018.

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

Michael Sherman
Chief strategy and transformation officer
Appointed May 2018.

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

Alison Wilcox
HR director
Appointed July 2015.

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

Clive Selley
Invitee, CEO, Openreach
Appointed February 2016.

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

Rachel Canham
Company secretary & general counsel, governance

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

Customers and markets

Our business model – and the strategies that support it – starts with understanding our customers and markets.

We operate in a rapidly changing environment. By understanding market trends in our own industry, and others that affect us, we can take advantage of opportunities as they arise. This helps us to act quickly to reduce risks to our business.

Fixed connectivity market

Key trends

Supported by the UK Government, the fixed connectivity market is undergoing a technological migration from the legacy Public Switched Telephone Network (PSTN) to Internet Protocol (IP). This is because newer technologies are more efficient and have lower running costs.

In both the consumer and enterprise markets, data consumption through fixed connectivity is increasing. With more connected devices and increased TV, gaming and streaming content (in higher definition), data consumption is increasing at 20% year-on-year.

Price competition for phone and broadband is more intense than ever. Therefore, revenue opportunities are focused on the increase in demand for higher speed and better quality propositions. This is driven by consumers and businesses using more data, and by demand for supplementary services such as security and entertainment.

We are also seeing rapid business adoption of collaboration tools like Microsoft Teams. More businesses are moving their processes and software to the cloud driving increased demand for high bandwidth.

Our portfolio of propositions and services

We provide direct connectivity to homes and businesses, which is our biggest market by revenue.

We sell a range of propositions and services, including fixed voice over broadband, mobile, internet access and dedicated lines for business and public sector customers.

We continue to track emerging trends so that we can launch appropriate propositions and services to our customers. As an example, we have launched voice over broadband to enable our **business customers** to transition from traditional voice services to IP voice.

Our Consumer unit serves **households and individuals.**

Our Enterprise unit serves three types of customer, each with different communications needs:

- **Small and medium enterprises (SMEs)** – who we define as having fewer than 100 employees. The smaller businesses want consumer-like solutions while others are looking for business grade service, guarantees and more sophisticated business solutions.
- **Corporates and public sector** – who we define as having more than 100 employees. They need solutions to drive their digital transformation, and are increasingly buying software-designed networking, security and cloud-based solutions. They are looking for a reliable partner able to offer managed services in these areas, often with multi-year contracts.
- **Communications providers** – who want to buy packaged solutions to sell to their end customers.

Mobile market

Key trends

Previously this market was heavily driven by handset launches. Today, while handset innovation continues, handset prices are higher, leading to consumers keeping their handsets for longer. This has also had an impact on store footfall.

That means more people are buying SIM-only plans and market volume growth will come from consumers buying extra SIMs and additional smart devices, and using more data.

Increasingly, businesses are letting employees use their own smartphones at work. But they're continuing to buy large data bundles to support their people's increasing mobile data use, for example for collaboration.

The UK is a mature mobile market and has a substantial number of Mobile Virtual Network Operators (MVNOs).

Our portfolio of propositions and services

The mobile market is a major segment of our business. We sell data and voice services as well as mobile handsets.

We provide mobile phone services to the whole of the UK, keeping our customers connected through our leading mobile network. As the demand for data increases we have created propositions that are fit for purpose; for example, we launched unlimited data plans for our **consumer and business customers.**

We use the BT network to sell mobile services under our three brands: BT, EE and Plusnet. Whilst we maintain a strong position with our 4G network, we are also rolling out 5G to ensure our customers have the best connectivity available to them.

Our mobile services are also available to **enterprise customers.**

Our wholesale channel sells infrastructure services to UK **MVNOs** who provide mobile connectivity to their end customers.

TV and content market

Key trends

The UK has a well-established free-to-air TV service. This minimises the need for consumers to buy premium content packages. However, live sport continues to be watched in a large number of UK homes.

Recent years have seen consumers favouring a range of over-the-top (OTT) streaming media services over traditional TV packages. They are buying the most basic TV access and then building up further content with on-demand OTT services.

In response, traditional providers are changing their offerings and striking deals with OTT service providers to aggregate a range of content to customers.

Our portfolio of propositions and services

As OTT services continue to be a trend within the TV and content market, we launched Sky channels from NOW TV, Netflix and Amazon Prime Video to fuel customer demand.

We sell TV content to **consumer customers** through our BT, EE and Plusnet brands.

BT Sport is also available to our **enterprise customers.**

Bundled and converged services market

Key trends

The UK is still in the early stages in the adoption of convergence. Currently, bundled offers of fixed, mobile and TV services are common within the market.

We will eventually serve this market with a single seamless connection through dynamically integrated fixed and mobile networks.

The need for convergence has increased as companies have adopted flexible working and more collaboration. Businesses are moving away from traditional phone services and bundling together fixed-voice, mobile and collaborative tools.

Convergence can increase customer lifetime value, as those taking converged offers tend to stay with us for longer.

New services such as smart homes (e.g. remotely controlled heating) and connected cities have become possible through converged connectivity and a new generation of devices.

Our portfolio of propositions and services

We are well positioned in the bundled and converged services market with the UK's largest fixed access and mobile network.

Based on this emerging trend, we recently launched BT Halo for our **consumer customers**. BT Halo combines 4G, 5G and fibre to offer a converged plan that includes 900 Home Tech Experts dedicated to making people better connected.

We provide our **business customers** converged business solutions helping them to stay productive across fixed and mobile, legacy and IP. We launched Cloud Voice Express with fibre broadband – a digital phone line to make and take calls on your business number from anywhere. We also provide BT One Phone which is a mobile cloud-based phone system that gives business users access to all their corporate desk phone features on their mobile. To ensure customers are always connected, we developed a unique solution, 4G Assure, providing customers with 4G connectivity if their fixed broadband service is not available.

Global connectivity and communications services market

Key trends

Global businesses are moving from traditional to digital voice services to enable digital transformation – from Multiprotocol Label Switching (MPLS) to services such as Software-Defined Wide Area Networks (SD-WAN).

Competition is intense across both local markets, often dominated by incumbent communications providers, as well as the global enterprise-grade fixed-line services market.

Today, there is greater demand for managed services which include cyber security. These free up customers to focus on their own business rather than managing the networks that underpin them.

Companies want to work with partners whose technical expertise and scale will help them benefit from advanced services across multiple regions, infrastructures and technologies as well as increasingly managing multiple cloud partners.

Our portfolio of propositions and services

Our Global business serves **multinational corporations** across the world, offering managed services, security, network and IT infrastructure services.

Leveraging the strengths of our network, security and other capabilities helps us to operate in this market. For example, Global offers tailored services to meet our customers' complex business connectivity and cloud requirements.

Fixed access market

Key trends

The UK's fixed access communications network runs over copper and fibre. It is the market segment on which Ofcom's regulatory activities are focused.

Infrastructure players are rolling out fibre-to-the-premises (FTTP) across the UK because it offers a faster, more reliable connection.

Openreach's duct and pole access (DPA) product has made it more attractive for Alternative Networks (AltNets) to build fibre both for retail and wholesale offerings.

AltNets continue to build their networks while targeting deals with communications providers to guarantee demand.

Our portfolio of propositions and services

The fixed access market is where we overlap with our biggest cable and fibre competitors.

Openreach supplies fixed access to **communications providers**, who then offer services to their home and business customers.

Openreach provides services over the local access network (referred to as the 'last mile'). It installs and maintains the fibre and copper communications networks that connect homes and businesses.

Openreach is deploying FTTP to improve the performance and quality of its network and now plans to accelerate its FTTP build to 4.5m premises passed by March 2021.

Regulatory update

Ensuring the UK's digital infrastructure is future-ready

BT continues to play a pivotal role in connecting the vast majority of UK households with broadband services and helping to transform some of the most remote communities in the UK. We are leaders in full fibre and 5G in the UK, and we're launching a converged network, which will benefit our customers and the UK more widely.

We are committed to delivering full fibre across the UK – funding Openreach to deliver fibre to 4.5m homes by the end of March 2021. Our investment is enabling Openreach to reach a current rate of 32,000 new premises with full fibre each week.

And we want to go further. With the right fiscal, regulatory and legislative enablers in place, we can invest at the level Openreach needs for scale deployment in all parts of the country, supporting the Government's nationwide gigabit-capable broadband ambition.

Ofcom's regulation – and in particular its ongoing Wholesale Fixed Telecoms Market Review – is key to enabling the delivery of the Government's strategic priorities.

Covid-19 pandemic

We welcome the supportive approach that Ofcom has taken to industry during this time of national crisis, helping us to keep doing the right thing for our customers and the country. This included, for example, deferring consultations, easing some deadlines and being clear that it will take a pragmatic approach to enforcement, where activity has been affected by Covid-19 priorities. This has enabled us to keep focusing on responding to the crisis, and supporting provision of critical services – such as hospital connectivity and 999.

Although Covid-19 has affected our ability to meet some regulatory obligations, we have worked hard to minimise any customer impact. We had to delay the implementation of end of contract notifications. With Ofcom's agreement we have had to suspend automatic compensation and Openreach declared 'Matters Beyond Our Reasonable Control' due to the effect of the crisis on provision and repair. We continued with implementation of the broadband universal service obligation (USO) in March 2020, with comfort from Ofcom giving us more flexibility on targets.

We have continued to give effect to our Fairness Commitments, introducing specific measures to support our customers as they increasingly rely on communications services during the crisis. For example, for vulnerable customers, we've removed out-of-bundle charges for critical services, and for landline-only customers, we have set £5 monthly caps on out-of-bundle call charges.

Statement of Strategic Priorities

The Government's Statement of Strategic Priorities from October 2019 supports full fibre connectivity, covering:

- lowering barriers to deployment and enhancing investment
- effective access to passive infrastructure
- stable long-term regulation that encourages network investment
- an outside-in approach to deployment
- enhancing switchover processes
- mobile and 5G connectivity
- spectrum management
- 5G and fibre convergence.

The Statement sets out targets for rapid nationwide deployment of gigabit-capable broadband networks and for becoming a world leader in next generation 5G mobile technology.

We welcome the Government's ambition. We support Ofcom's intended shift towards a more pro-investment regulatory regime in fixed markets, coupled with greater deregulation where competition is found to be effective.

We also welcome Ofcom regulating passive infrastructure where this will enable deregulation further downstream. We are encouraged by the Government's £5bn commitment to facilitate the build of gigabit-capable networks in the hardest-to-reach parts of the country.

This desire to see the UK as a world leader in digital infrastructure fits with our desire to see better outcomes for customers and the UK across full fibre rollout, 5G and enhanced customer experience. It also aligns with our strategic priority of building the best converged network.

Wholesale Fixed Telecoms Market Review (WFTMR)

Ofcom's policy documents (including its consultation Promoting Competition and Investment in Fibre Networks, published in January 2020) help shift emphasis from retail competition to facilitating competitive investment in full fibre. Its regulatory framework also sees five-year market review periods instead of the current three-year period and looks across the whole of the wholesale fixed telecoms market rather than considering business and residential connectivity in separate processes. We see these as positive changes.

While further detail is still to be worked out, we are encouraged by Ofcom's proposals to extend stable legacy pricing into the parts of the country where build by more than one network provider is not economic, subject to a commitment by BT to build in the area.

We welcome Ofcom's confirmation that regulation should not prevent us from earning sufficient returns to compensate for the downside risk we took at the time of our investment (the 'fair bet'). We also note Ofcom's willingness to discuss Openreach varying its commercial contract terms fairly with downstream communications providers, to meet competition and share risk.

Overall, Ofcom's consultation document is an important step towards enabling us to increase investment in FTTP. We will continue to work constructively with Ofcom to further develop and implement the new regulatory framework.

All IP
We are committed to migrating communications providers to IP voice services and withdrawing traditional voice access by December 2025. We welcome the WFTMR proposals to allow Openreach to stop selling new copper lines when 75% of premises in the relevant area have ultrafast availability. We also support the withdrawal of price controls on copper services when ultrafast coverage in an exchange area is complete.

We acknowledge that overcoming challenges posed to vulnerable customers and critical national infrastructure are key to the successful withdrawal of copper services.

We continue our close engagement with Ofcom, industry working groups and Government to ensure a smooth migration.

Decent broadband for all
In June 2019, Ofcom designated BT (along with KCom in Hull) as a universal service provider for broadband. This means that we are obliged to provide at least 10 Mbps broadband to those premises that cannot get this speed (subject to some qualifying conditions). Where the cost of providing 10 Mbps broadband to a premises is less than £3,400, we must provide it; where the cost is more than £3,400 the customer may opt to pay the additional amount. We anticipate being able to recover the net cost of meeting this obligation from an industry-contributed fund.

Customers have been able to request the broadband USO product since March 2020. We have been working with Ofcom to ensure efficient delivery and a good customer experience.

Shared Rural Network
Work across mobile network operators, the Department for Digital, Culture, Media & Sport (DCMS), HM Treasury and Ofcom, led to agreement on the Shared Rural Network (SRN) proposal in mid-March 2020. This will lead to a boost in 4G coverage for people in rural areas. It includes DCMS grant funding arrangements and a variation to our existing 1800 MHz spectrum licence to incorporate new coverage obligations – 90% of the UK's geography within six years.

Consumer fairness
UK regulators have consumers' interests as a priority. We support that. We want a regulatory framework which creates better outcomes for all customers and ensures support for vulnerable customers in particular.

We have continued to work closely with Ofcom to demonstrate our adherence to the Fairness Commitments we signed up to last summer. This includes:

- giving consumers the support they need
- helping them engage with the market
- making sure services work as promised and consumers can change or leave quickly and smoothly
- making sure everyone gets fair treatment.

Ofcom has also been looking at different pricing between new and existing customers. In January 2020, the Competition and Markets Authority published a Loyalty Penalty Update, covering mobile and broadband pricing across the industry. We have worked with Ofcom to address these concerns. For example, we have voluntarily implemented a package of measures to support our customers who choose not to switch to a new deal at the end of their contract.

We have committed to upgrade 700,000 of our customers from copper to superfast broadband at no extra cost, and to cap broadband out-of-contract price rises. EE mobile handset customers that have been out of contract for more than three months will get a price discount after their contract ends.

In December 2019, Ofcom published a consultation on its proposals to implement the new European Electronic Communications Code (EECC) for consumer protections. While we support many of the proposals, certain aspects could lead to worse outcomes for consumers; we will engage with Ofcom on these areas through its consultation process. The EECC will also make it easier for operators to roll out ultrafast fixed and mobile networks.

Simplifying regulatory reporting
Understanding the economics of the services we provide in the regulated areas of our business is important. Regulatory reporting also evolves as regulatory priorities and policies evolve. We are working with Ofcom to improve our reporting. To provide better quality insight it needs to be more relevant, transparent and focused.

Spectrum
We have engaged with Ofcom on a number of spectrum-related consultations. Notably, from July 2019, Ofcom facilitated new shared access to existing mobile spectrum bands. And in December 2019, it made available four new shared bands for local access licences.

Ofcom has issued a statement confirming the final rules for the upcoming auction of 700 MHz and 3.6 GHz spectrum in the UK. The auction is expected in 2020/21, but timing may be affected by constraints arising from Covid-19.

International regulation
Brexit may have an effect on regulation in our sector and others. Until we know the detail of the future UK/EU trading relationship, we cannot predict the effects, and so we have made contingency plans.

Regardless of the outcome of the trade negotiations, our European businesses are incorporated locally and operate under their own local regulatory authorisation.

In the EU, regulations and directives aim to protect consumers while encouraging competition and investment in fixed and mobile networks. They require independent national regulators to review markets regularly for significant market power and to put in place fair and proportionate remedies. They include rules covering spectrum authorisation, consumer protection and universal service obligations.

Technology is evolving fast. Combined with increasing use of communications services across jurisdictions, this can create regulatory environments that lack precision and certainty. Our role is to make sure we are at the forefront of technological change, and our focus is on how this can impact regulated markets. We provide input into regulators and decision makers about these changes, and the domestic benefits of establishing an effectively regulated market.

Access regulation in particular varies widely around the world. We continue to press incumbent operators, and their regulators, for fair, cost-related wholesale access to their networks.

Our business model

We build and operate the UK's digital infrastructure. We provide customers with connectivity and communications services, while delivering brilliant experiences that create trusted relationships and build loyalty.

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

Our innovative propositions and services enable customers to connect, communicate, share, be entertained and do business more effectively. The support we provide creates long-term, trusted relationships.

For our consumer customers, we sell voice, broadband, mobile and TV services, with a range of supplementary propositions such as handsets, accessories and insurance. Our services for our business customers are similar, but also incorporate complex managed networks, IT services and cyber security. We also sell wholesale access propositions and services (including BT Sport) to UK communications providers.

Customers mainly buy our propositions and services on monthly, recurring subscriptions or contracts – providing us with ongoing revenue. In Consumer, this type of payment model is complemented with pay-as-you-go propositions.

For example, individuals and households are typically on 12- to 24-month contracts. Small and medium enterprise customers are usually on the same. Large enterprise customers – both domestic and international – usually buy managed services on multi-year contracts.

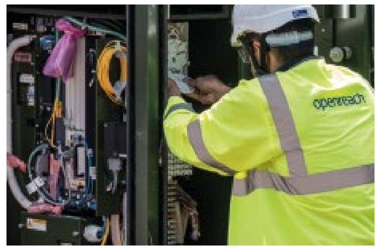
Wholesale contracts range from one month for regulated products, to five years or more for major managed service deals.

Information linked to our business model
About BT – how we're organised and how and where we operate – page 6.
Stakeholders – how we engage with our stakeholders – page 24.
Strategy – our strategy and how it supports our business model – page 16.
Principal risks and uncertainties – how we manage these – page 52.
Viability statement – our directors' assessment of our prospects and viability – page 64.
Governance – how we govern our business – page 65.
Directors' remuneration – page 84.

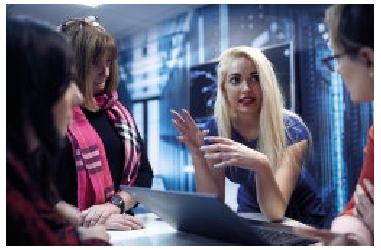
What we do

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

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

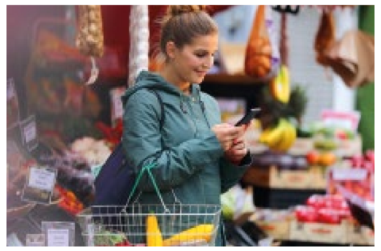


Build
We build fixed and mobile connectivity across the UK, creating the UK's leading network. We also build global networks for multinational corporations.



Innovate
We use our customer insight and technical skills to create new connectivity-based products, services and propositions.

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



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

Our distinctive resources

We have a unique combination of people, technology, content, networks and other physical assets that set us apart and support us in adding value, providing us with many opportunities.

Financial strength – our cash flow provides us with the funding to make long-term value-creating investments. This year we invested £2.1bn in our network and generated £2.0bn normalised free cash flow, to support change in future years.

Colleagues – their commitment, expertise and diversity are key to our success. We have 105,300 employees, of whom 82,700 are in the UK.

Customers – the size, scope and breadth of our customer base gives us an advantage when new propositions and services are brought to market. We have a total of around 32m customers. Of these, over 30m are consumer customers, over 1m are business and public sector organisations in the UK and Republic of Ireland and around 4,000 are multinational corporations. We also provide network propositions and services to more than 650 UK communications providers.

Networks and physical assets – we own and manage the UK's core fixed network. More than 650 communications providers use our network to deliver services. We hold key mobile spectrum, with extensive network coverage across the UK with our 2G, 3G, 4G and 5G networks.

Our brands – we own three retail brands: BT, EE and Plusnet. We also own the Openreach brand to serve communications providers.

BT EE plusnet
openreach

Retail footprint – we have more than 620 UK stores, giving us the largest retail footprint of any mobile network operator.

Innovation – we are market leaders in the rollout of 5G. The service is now available in 80 cities and large towns. This year we spent £662m on research and development enabling us to stay at the forefront of a rapidly changing world. We have a portfolio of more than 5,000 patents and applications, with 103 filed in 2019/20.

Suppliers and partners – our partners and suppliers' propositions and services help us to execute our strategy.

How we're organised

Customer-facing units

Consumer	Enterprise
Global Services	Openreach

Corporate units

Strategy & Transformation	Technology	Corporate Functions

Stakeholder outcomes

To generate sustainable revenue and profit, we focus on providing differentiated products, services and propositions and delivering a superior customer experience. We measure this through Net Promoter Score (NPS)[a], which has improved over 15 consecutive quarters.

Our business model generates value for different groups:

Shareholders benefit from the Board acting in the best interests of the company and investors for long-term value generation.

Customers get to connect and communicate, discover, do business and be entertained through innovative propositions and services.
5.5 percentage points improvement in NPS
3.7m BT Call Protect customers

Colleagues get salaries, pension contributions, extra benefits and career opportunities, development and training.
79% employee engagement outcome
c. 3,800 new apprentices and 500 graduates taken on

Communities benefit from us enabling the digital world, improving digital skills, protecting the environment and making society more connected.
2.8m people reached through our Skills for Tomorrow programme
92% electricity consumed worldwide is from renewable sources (UK is at 100% for directly purchased electricity)

Suppliers get revenues from what we buy, and our thoughts to help them optimise their own supply chain.
£13.8bn spent with suppliers, more than two thirds of our total costs
69% with top 100 suppliers

HM Government gets value from our enhancements to the UK's digital infrastructure and from the taxes we pay.
43 police forces in England protected from cyber attacks, and sensitive data safeguarded, whilst ensuring the police can make increasing use of cloud services

Regulators are informed and reassured through active engagement and collaboration.

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

Our strategy

Investing in the future

Our strategy is to lead in converged connectivity and services, capitalise on new business opportunities and deliver industry-leading efficiency. This supports our goal of delivering sustainable growth in value and creating a best-in-class customer experience.

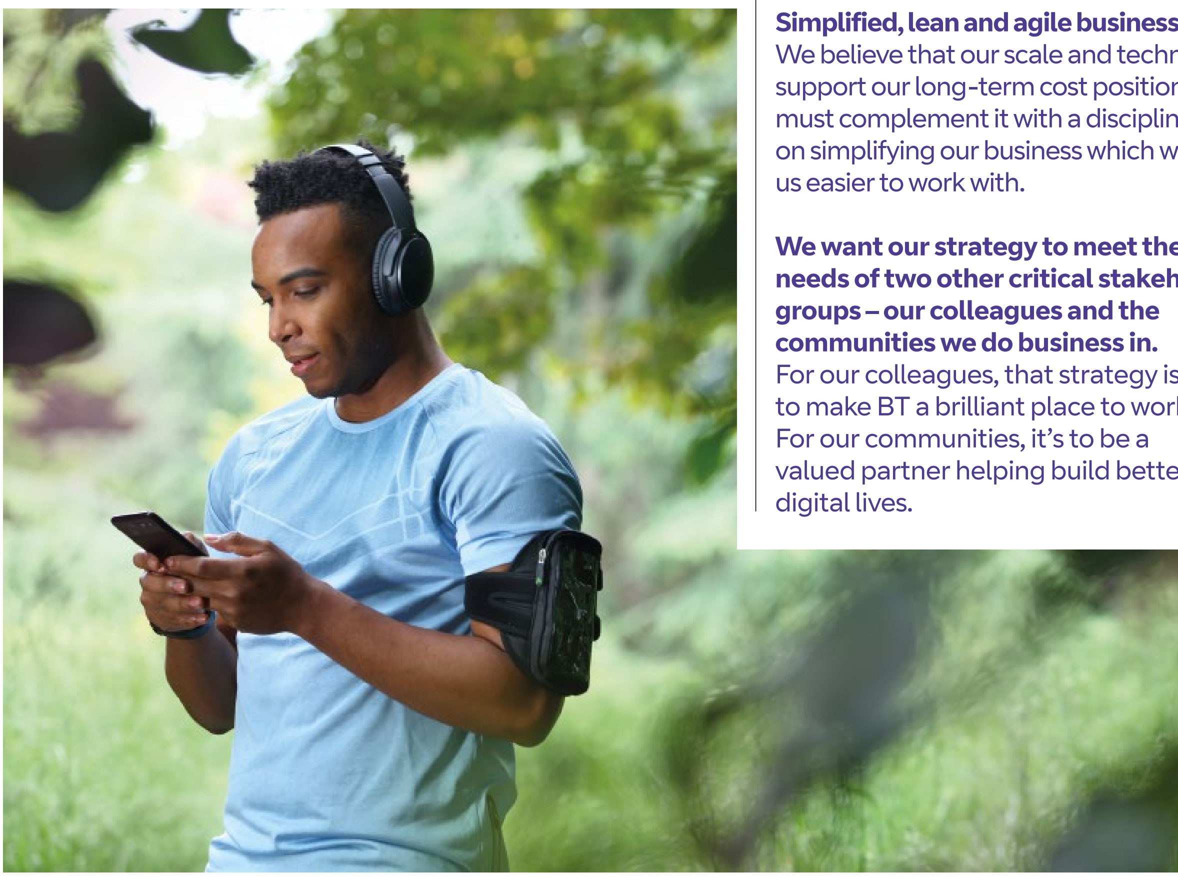
Differentiated customer experience
We are focused on delivering great services and experiences to customers to build long-term relationships.

Best converged network
Having the largest and best converged network is critical to our future.
The universal need to connect and communicate has never been more important. With the rapid increase of 'smart' devices and sensors, the demand for leading connectivity platforms is only expected to grow faster.

It will help us succeed, both in terms of scale benefits and differentiating us from our competition.

Simplified, lean and agile business
We believe that our scale and technology support our long-term cost position. But we must complement it with a disciplined focus on simplifying our business which will make us easier to work with.

We want our strategy to meet the needs of two other critical stakeholder groups – our colleagues and the communities we do business in.
For our colleagues, that strategy is to make BT a brilliant place to work.
For our communities, it's to be a valued partner helping build better digital lives.



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

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

Our strategy
Customers

Best converged network

Customers want fast, secure, seamless, ubiquitous and reliable connectivity to enable their digital lives and businesses. So we're prioritising delivering the UK's best converged network as we roll out FTTP and 5G across our fixed and mobile assets.

Differentiated customer experience

Consumers and businesses have more choice than ever about how they communicate and through which company. We aim to provide genuinely differentiated products, services and propositions and deliver a best-in-class experience that encourages existing customers to stay with us and do more with us, and new customers to switch to us. We want to be at the centre of our customers' digital lives, offering them easy, personalised experiences.

Simplified, lean and agile business

Our markets are dynamic and competitive. We operate in a complicated and regulated industry. A priority is to create a simpler, leaner and more agile business. That means continually modernising our organisation, changing how we work to do things better, at lower cost, and simplifying our products, processes and systems.

These strategic priorities are built on our key strengths and distinctive resources. We are well placed to succeed, building on our leading network, brand and relationship with our customers. The market is changing and we are continually assessing the opportunities for us to continue transforming our business and lead the market.

Colleagues
A brilliant place to work

Communities
A valued partner helping build better digital lives

Our values

Personal | **Simple** | **Brilliant**

Strategic progress

Delivering a differentiated customer experience

Creating a standout experience for all our customers, backed by the best networks, is central to our long-term growth and future success. We continue to make progress, but we want to go further. We want to go Beyond Limits.

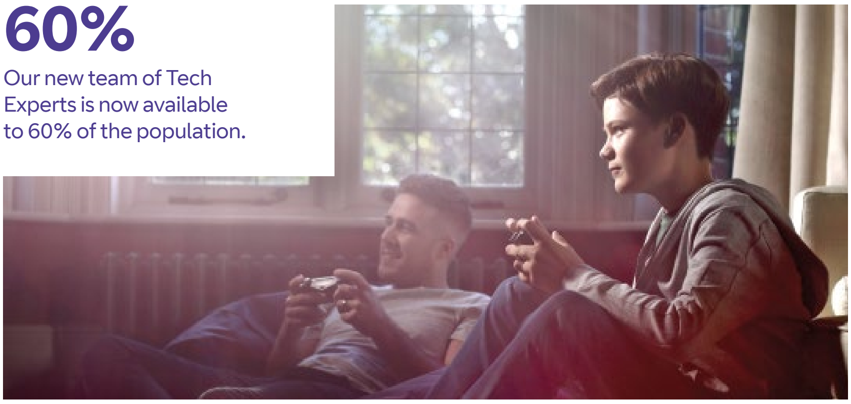
Everyone at BT has a part to play to create a brilliant customer experience. We want every customer to feel the unique value of what we do and how we do it. If they ever have a problem, we want to fix it quickly.

We measure customer experience using Net Promoter Score (NPS). We've had 15 consecutive quarters of NPS improvement and this year's score was 5.5 percentage points higher than last year. We've achieved this by applying a consistent approach for the past four years, focused on:

- **delivering a consistent and reliable service**
- **creating loyalty and value**
- **providing propositions that fit our customers' needs.**

60%

Our new team of Tech Experts is now available to 60% of the population.



Delivering a consistent and reliable service

Our communications services are essential to our customers' lives. If orders are late or service is disrupted, it can cause customers significant distress, impact mission-critical services in the public sector and disrupt business operations. To avoid this, we continue to invest. This year we've:

- launched a new team of Tech Experts to help BT Halo customers install or fix the latest technology in their homes or businesses and this is now available to 60% of the population
- to drive forwards our full fibre rollout, we've recruited and trained more than 3,000 engineers
- maintained on-time repair performance for copper and fibre products at 84% despite the very difficult weather conditions, bringing customers back into service as quickly as possible
- reduced the number of faults in our copper network by 3.4%.

Service progress around BT

- We met all of Ofcom's 42 minimum service levels for voice and broadband services, including fibre-to-the-cabinet (FTTC).
- Complaints to Ofcom are down. BT Consumer broadband complaints fell 41% compared to last year. For our BT branded landline service complaints went down 38%. For the first time, levels of complaints for our BT brand landline and broadband were better than the industry average.
- EE complaints were the lowest in the industry for broadband. EE also saw the lowest levels of complaints amongst the mobile major network operators.
- We installed 17% more Ethernet circuits to customers than last year.
- Global opened a new Cyber Security Operations Centre (SOC) in Paris, and upgraded existing SOC facilities in Madrid and Frankfurt. We launched our Security Advisory Services practice, marking another step in the ongoing expansion of our cyber security capabilities. The practice will offer strategic security guidance and solutions to organisations across the globe.

Creating loyalty and value

We want customers to be loyal to our brands. We also want them to get more for their money. That could mean faster speeds, or better mobile coverage. Or it could mean additional benefits from being with us, such as free McAfee antivirus software for BT broadband customers, or free data swapping between family members for EE customers. This year:

- we reached 100% of all consumer calls being answered in UK and Ireland contact centres across our three brands. We've achieved that a year ahead of our original schedule
- we brought BT brand sales and services to the UK high street with over 500 dual-branded BT/EE stores
- we launched the new BT TV service in February 2020 allowing customers to change channel packs monthly, incorporating all the Sky channels from NOW TV with our existing Netflix and Amazon Prime Video services
- EE launched unlimited data plans for 4G and 5G consumer and business customers
- 5G business plans include MobileIron Threat Defense to help protect against security risks
- we offered two new swappable benefits to consumers under Smart Plans: Amazon Prime Video and Gamers' Data Pass
- BT launched 5G smartphone plans for BT Mobile consumer and business customers.

Loyalty and value progress around BT

- The average speed of BT Consumer broadband increased by 10% to 52Mbps.
- We are committed to upgrading 700,000 home and business customers to superfast broadband at no extra charge by late summer 2020.
- We secured exclusive rights to UEFA Champions League, UEFA Europa League and UEFA Europa Conference League until 2024.
- Almost a third of a billion nuisance calls have been diverted since we launched BT Call Protect in January 2017.

100%

of all customer calls answered in the UK and Ireland.

5G

EE launched unlimited data plans for 4G and 5G consumer and SME customers.

Providing propositions that fit our customers' needs

We strive to develop differentiated products, services and propositions for all our customers. We want to make sure we provide the best connection and experience to our customers.

- BT Halo offers the best connection and experience. It comes with unlimited data on mobile and broadband, access to 5G and inclusive Home Tech Expert support for consumers.
- In October we introduced the Digital Voice network (our all-IP digital platform). This provides customers with high definition voice and advanced home phone capabilities.
- For SME customers, we launched our converged BT Halo for Business product. It's the first on the market to bundle superfast broadband with a digital phone line so that businesses can make and take calls on their business number from anywhere.
- For larger customers and the public sector, we're investing in the next generation of intelligent, digital connectivity. We launched managed SD-WAN solutions to constantly analyse and prioritise the traffic going through each business network.
- Global continues to transform its business from network-led to digital solutions, underpinned by a portfolio of solutions supported by market-leading security services.
- This year we defined the strategy and started the execution journey to build a new, digital native business model for Global. Work is underway to build and launch new over-the-top and software-defined solutions, using a new software as a service-based IT platform. The aim is to offer our customers services that better meet their needs – choice, great employee and customer experience, commercial flexibility and security; and to internally accelerate our transformation into a simpler and more digital business. We have invited our first group of customers to co-create with us and will look to further refine as we progress this new approach.

Products, services and propositions progress around BT

- We launched our BT Halo convergence proposition to which 30% of our BT Consumer broadband base subscribe.
- 4G Assure is available to all our business customers and accounts for over half of new SME broadband sales. Customers' NPS scores for these propositions are higher than with standard broadband.
- We launched cloud contact centre and collaboration services in partnership with Cisco, Microsoft, Google and IBM.
- We launched our 5G Business plans and worked with a number of customers to shape future use cases enabled by 5G.

Strategic progress continued

Building the best converged network

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

80
5G now available in 80 cities and large towns.

90
Improved mobile coverage on the railways, with 90 sites deployed and 23 upgrades.

Mobile progress around BT

We have made significant progress on network deployment and services this year. EE launched 5G in May 2019 – the first in the UK and one of the first in Europe, followed by BT Mobile in October.

We have continued to grow our 5G network and leverage our fixed network to provide a leading end-to-end experience. We're also preparing for the forthcoming spectrum auction. The auction is expected in 2020/21, but timing may be affected by constraints arising from Covid-19.

We continue to invest in the 4G mobile network, deploying more spectrum and enabling more sites in rural areas and along railway lines. Our 4G network has maintained its leading position, with RootMetrics naming EE as the UK's best network for the sixth year running. Our mobile network now covers 99.3% of the outdoor population of the UK.

This year we:

- extended our 5G coverage, which is now available across 80 cities and large towns. We will continue to lead in 5G, investing significantly over the coming quarters to more than double our current 5G footprint by March 2021, assuming the right conditions are in place
- launched the best set of 5G devices and will improve the range over time
- improved mobile coverage on the railways, extended our coverage with 90 sites deployed and 23 upgrades, all primarily targeting London commuter rail routes.

Fibre by default

We have accelerated our full fibre deployment, reaching a rate of 32,000 premises passed per week (equivalent to one home or business every 19 seconds). Given current progress, our plan is to accelerate FTTP build to 4.5m premises passed by March 2021 and 20m premises by mid- to late-2020s, subject to the successful resolution of a number of critical enablers. Within this commitment we aim to connect 250,000 homes and businesses in over 200 villages, market towns and hard-to-reach areas by March 2021.

We continue to extend the fibre network. During the year Openreach was awarded two of three lots to provide superfast speeds to Scotland. The vast majority of the build will be FTTP.

Other highlights in the year:

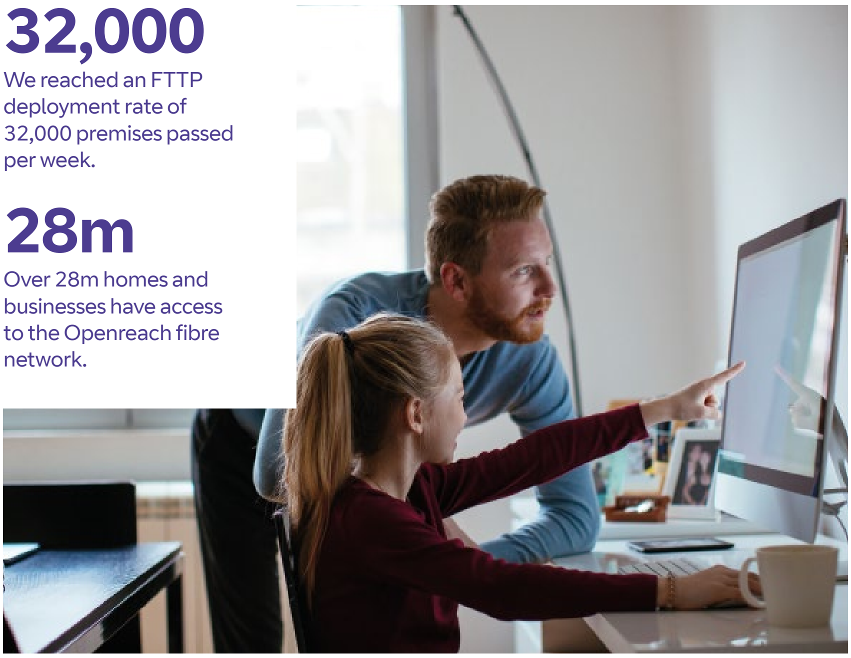
- as part of the Openreach full fibre rollout, we have extended our fibre cities plan to 110 locations
- we have passed 2.6m premises with FTTP
- over 28m homes and businesses have access to the Openreach fibre network, comprising 87.8% of all UK premises. Openreach has 14.6m fibre broadband customers, comprising 69% of the UK broadband base
- Openreach's Gfast footprint now reaches more than 2.8m homes and businesses
- our consumer ultrafast broadband proposition is now available to approximately 5.4m homes
- in relation to ultrafast, we have a speed fast guarantee set at 100 Mbps.

32,000

We reached an FTTP deployment rate of 32,000 premises passed per week.

28m

Over 28m homes and businesses have access to the Openreach fibre network.



Network integration

In addition to our market-leading mobile and broadband networks, we have the UK's most extensive public wi-fi network. Customers can stay connected in even more places with our 5m hotspots.

We are bringing together these three networks into one converged, digital platform to give customers seamless connectivity wherever they go. As we integrate these we are building new capabilities and features. We are constantly looking at new innovations, which we will deploy over the next two to three years – like edge computing to cut network congestion and speed up application performance, and 5G service capabilities.

Commercial success increasingly depends on innovation, which is why we invest in research and development. We are constantly looking at new innovations to deploy. This year we invested £662m (2018/19: £643m) in innovation. Over the last decade we've been one of the largest investors in innovation in the UK, and globally in the telecoms sector. We have a portfolio of more than 5,000 patents and applications, with 103 patents for inventions filed in 2019/20.

The integration of the BT and EE networks continues. We're building the network cloud core infrastructure to support both the fixed core and the future 5G mobile core. Doing so enables us to separate core network software from the hardware infrastructure it runs on, giving greater speed of introduction of new technology and more agility. We have recently selected the first set of vendor applications to run on this infrastructure to provide a cloud native 5G core network.

£662m

This year we invested £662m (2018/19: £643m) in innovation.

To meet our customers' changing connectivity and communication needs, we've sharpened our technology focus to future technologies. For example:

- fibre by default
- 5G by default
- building an integrated digital IP network platform for the future
- migrating and switching off legacy platforms, such as PSTN and 3G, which also saves network costs.

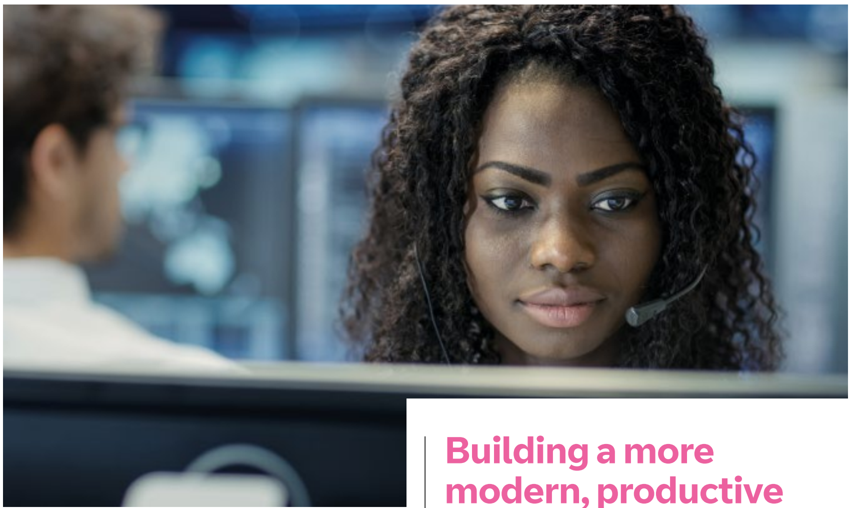
Working closely with the National Cyber Security Centre (NCSC), we have developed clear and robust network design, procurement and security policies for minimising vendor risk in our networks. The UK, via the Huawei Cyber Security Evaluation Centre overseen by the NCSC, evaluate Huawei products as part of the UK remediation for use of Huawei. It leads the world in its ability to understand, analyse and assure the quality and integrity of its hardware and software. We are committed to working with government to continuously improve network security and resilience.

We worked closely with the Government throughout its Telecoms Supply Chain Review. Its conclusions on high-risk vendors (HRVs) in January 2020 were an important clarification for the industry as a whole. The Review broadly supported the network architecture principles already in place at BT, with HRVs not permitted in the sensitive core network. The planned 35% limit on the use of HRVs in the full fibre and 5G access networks, within a three-year compliance window, will cost an estimated £500m over five years. We will continue to work closely with Government and the security services on the detail of these requirements and as new legislation is put before Parliament in due course.

Strategic progress continued

Creating a simplified, lean and agile business

We have continued to modernise our organisation to deliver better experiences for our colleagues and customers.



£1.6bn
In two years we have achieved £1.6bn gross cost reduction.

January 2020
We finished onshoring call centres in January 2020, a year ahead of schedule.

9,000
9,000 roles removed through our transformation programme.

Building a more modern, productive operation

To build a successful business that's fit for the future, our customers and colleagues must be at the heart of our transformation.

Our plan is to create a simplified, leaner and more agile business that delivers best-in-class experiences to our customers, and their friends and family, enabling us to be at the centre of their digital lives.

We are also focused on creating market-leading colleague engagement by making BT a brilliant place to work and attracting the best talent.

Finally, delivering industry top-quartile productivity is a critical outcome in our transformation. We want to be more efficient than our competitors, so we can deliver competitive prices and strong margins.

We have worked on four distinctive areas to ensure we continue to radically simplify our organisation.

Lowering our costs. We committed to a gross cost reduction of £1.5bn between 2018 and 2021. Two years in, we have reached our total through a range of programmes.

Reducing organisational complexity. To increase efficiency we committed to reduce our organisation by 13,000 roles across that same time period. So far, we have removed 9,000 roles from the across the business.

Onshoring our contact centres. We committed to onshoring our contact centres so we are able to deliver a best-in-class experience for our customers. We finished onshoring these in January 2020, a year ahead of schedule. We're now working to deliver localised call routing to provide a more personal, local service.

Rationalising our office estate. For our people, we announced the rationalisation of our office estate to around 30 strategic sites. During the year we secured the location of our new London headquarters and our new Bristol and Birmingham buildings. Key events over the next two years include the transition to our new London headquarters, the opening of our new buildings and further consolidation of our estate.

16m
We will move our 16m customers from legacy to converged networks.

15
NPS has improved over 15 consecutive quarters.

Simplifying products, processes and systems

To continue our transformation we will focus on four core issues in our business.

Migrating customers from legacy to converged networks. We will move our 16m customers from legacy networks which are increasingly unreliable and expensive to maintain. They'll switch to state-of-the-art technology, providing faster and more reliable connectivity.

Building simple zero-touch, fully automated processes. We will radically re-work our complex processes, making them more effective and efficient, with less manual intervention required. This will enable us to deliver services to our customers more quickly than today and increase our productivity.

Simplifying our portfolio and focusing on experiences and services. We need to radically reduce the number of services we sell. The complexity is confusing both to our customers and colleagues. In addition, our product proliferation is expensive to manage and makes it more difficult to respond quickly to market dynamics.

Creating modern IT components to enable digital experiences. As we reduce our solutions and process complexity, we will be able to massively simplify our IT estate, reducing our 58 system stacks and delivering a modularised solution fit for future growth. We'll embrace the benefits of the cloud and share more components across our business.

Simplified, lean and agile

These plans will enable us to create a simplified, leaner and more agile business that delivers:

1. Best-in-class NPS – we want customers to love BT and recommend us to their friends and family.

2. Industry top-quartile productivity – we want to be more efficient than our competitors, so that we can deliver competitive prices and strong margins.

3. Market-leading colleague engagement – we want to make BT a brilliant place to work and attract the best talent.

Our stakeholders

We must meet our stakeholders' needs to be successful as we build the UK's national digital infrastructure.

Our main stakeholders are:

Colleagues

You can find out more on our culture and colleagues, the ways we are reshaping our organisation and the ways we work on page 30.

You can find out more on the *Colleague Board* on page 32.

Customers

You can find out more on how our customers fit into our business model on page 15 and on the propositions and services we provide them on page 19.

Shareholders

You can find out more on our substantial shareholders in the Directors' information on page 116.

Communities

You can find out more information on communities and our digital impact and sustainability strategy on page 36.

Suppliers

You can find out more on our supply chain related risks on page 56.

HM Government

You can find out more on the Government's Statement of Strategic Priorities on page 12.

Regulators

You can find more on regulatory updates on page 12.

The Board is responsible for the group's strategic direction, long-term objectives and development. It also oversees the group's operations, performance and governance and ensures compliance with statutory and regulatory obligations. The Board has established certain committees to assist it in discharging its responsibilities and delegates day-to-day responsibilities to the chief executive.

We engage with our stakeholders internally and externally at all levels of the business, including through our frontline operations, our customer-facing and corporate units, senior leadership team, the *Executive Committee* and the Board and its committees.

We use a variety of mechanisms to engage with our stakeholders, including face-to-face meetings, conferences, reviews, forums and webcasts. The Board and its committees also receive updates on these mechanisms and initiatives for engagement. This is then used to inform decision making.

Board and committee activities can be found in the Corporate Governance Report:

The Board: page 71

Nominations Committee: page 76

Audit & Risk Committee: page 78

BT Compliance Committee: page 82

Digital Impact & Sustainability Committee: page 83

Remuneration Committee: page 84

Colleagues

Our colleagues are central to delivering our vision, goals, strategy and transformation. We employ 105,300 full-time equivalent people in 58 countries, 82,700 of these are in the UK, and an additional 1,800 people through agencies.

Our colleagues want us to:

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

How do we engage and what is the outcome of our engagement?

Senior leaders across BT regularly meet their teams through roundtables, town hall debates, site visits, webcasts and blogs, using these opportunities to share relevant information and invite comments and questions.

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

Twice a year our colleagues share feedback about how it feels to work at BT through our Your Say engagement survey. With around 85% of colleagues taking part, this survey gives us a good understanding as to how our colleagues are feeling and helps us understand what more we can do to make BT a brilliant place to work.

The Board was kept updated on talent management and culture throughout the organisation and how this has shaped our initiatives and programmes, including those in relation to the wellbeing of our colleagues, and progress against these.

This year we established the *Colleague Board*, which aims to bring our colleagues closer to Board decision making. This is another mechanism to allow for the Board, as well as management, to understand the views of our colleagues. It sits alongside BT's existing employee forums, people networks, unions and engagement methods. The Board is updated on feedback from the *Colleague Board* by Isabel Hudson, the designated non-executive director for workforce engagement.

We use feedback from our colleagues to focus on key areas and initiatives that will make the biggest impact. Colleague feedback is used to further shape and inform the things that we do for our colleagues, for example our Skills for Tomorrow programme, as well as launching collaboration tools such as Workplace and our Better Workplace Programme.

Workplace is a best-in-class, mobile-first, internal social networking channel and almost 70,000 colleagues have registered to use Workplace since it launched in July 2019. It is a secure and simple way for colleagues to connect, share knowledge and keep up to date with BT news and activities. Colleagues can access Workplace wherever they are and on the device of their choice.

Workplace helps us become the best connected company across all the markets we do business in, bringing together colleagues from all our brands and offices on one social platform. It also enhances two-way conversations across BT and allows our *Executive Committee* and senior leaders to connect more easily with colleagues across the business.

During the year we also engaged with our colleagues through a survey completed by our contact centre and corporate population which highlighted that collaboration across the business is often harder than it should be. Our Better Workplace Programme aims to bring our colleagues together in modern, future-fit buildings that ensure easy collaboration. We have involved our colleagues in the creation of the workspaces at our temporary sites secured in cities such as Manchester, and in the design and prioritisation of facilities in the new corporate and contact centre spaces. Our investments are linked where possible to the elements that our colleagues care most about.

The engagement of colleagues across BT has been of paramount importance and focus throughout the Covid-19 pandemic. Our chief executive has connected directly with colleagues via a series of video recordings posted on Workplace, and the *Executive Committee* has hosted weekly Q&A calls for c.700 senior managers from across the business, ensuring all senior leaders have the most current information to share with their teams, and setting the tone on the importance of leadership visibility.

Early policy decisions on office closures, remote working, key worker status and support options for colleagues have provided the structure for the colleague information site hosted on BT Today (our internal intranet news site), with extensive Q&A available to all colleagues. In addition to providing clarity on policy, the engagement activity has concentrated strongly on supporting colleagues' wellbeing. The launch of the Your Wellbeing portal has provided a valuable source of internal and external support, enabling colleagues to adjust to changes in their working lives , with support on key wellbeing topics such as family, health, life and money. Workplace has proved invaluable in helping teams stay connected and our *Colleague Board* members have also played an important role in keeping the views of colleagues strongly represented.

Our stakeholders continued

Customers

We recognise that developing a strong understanding of customers' needs and putting this at the heart of our business and strategy is critical. We have a large and diverse customer base which is integral to our future success. Our customers are consumers, businesses, multinational corporations, public sector organisations and communications providers.

Our customers want us to:

- provide propositions and services that meet their needs
- create value
- deliver a consistent and reliable service.

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

How do we engage and what is the outcome of our engagement?

We engage with our customers at all stages of our proposition development process to understand their needs and to develop products and experiences that endeavour to meet these needs. We have an Insight Centre of Excellence that serves all parts of BT to ensure we build a strong capability that delivers a deep understanding of what customers need and want from BT.

We use a variety of methodologies and data sources to identify customer needs, expectations and behaviours in all categories and channels that we currently operate in, as well as future ones. We use these insight methods to inform all elements of our strategy including targeting & positioning, proposition & pricing, customer experience, and brand & communication development.

For our multinational customers, we run the Global Advisory Board on a regular basis where we talk to the CEOs and CIOs of our major customers to discuss and understand their needs and priorities and feed this into our activities.

Openreach continues to ensure that all of its customers obtain equal access to our network by ensuring that its industry consultation process operates compliantly, with strong governance controls.

The process offers communications providers the opportunity to engage confidentially with Openreach during an initial consultation stage and this opportunity has been taken up during the past year.

The respective customer-facing unit CEOs and their management teams ultimately provide operational oversight to ensure that we meet the very highest standards of customer experience. Regular business reviews with *Executive Committee* members led by the chief executive and chief financial officer include discussions as to how we are tracking with reference to our customer experience KPIs, and how we can continue to improve on this.

The chief executive and the *Executive Committee* regularly review and discuss complaints directly with our customers to enable us to better understand the process we follow in responding to complaints and the areas requiring improvement.

The Board is updated on customer experience KPIs, namely Net Promoter Score (NPS) and Keeping Our Promises, and the initiatives which continue to drive improvements on our customer experience proposition. The Board has detailed discussions on customer experience with each of the customer-facing unit and Openreach chief executives supported by Strategy & Transformation.

During the year the *Digital Impact & Sustainability Committee* also discussed the work ongoing in Consumer to support the needs of our customers who are living with challenges. The committee discussed our current proposition and service offering and will continue to monitor management's focus on the development of propositions for these customers, to help us to support them more effectively.

Customers remain a central part of discussions and decisions by the Board and the *Executive Committee* in relation to group strategy, including the development of our strategic plans and investment propositions.

Shareholders

We have two main shareholder groups: institutional investors and individuals, as well as debt investors. As a result of privatisation in 1984, most of our c.795,000 shareholders are individuals, although institutional investors hold the biggest volume of shares.

Our shareholders want us to deliver:

- a return on their investment through payment of dividends or capital appreciation
- performance against our outlook and long-term strategy.

How do we engage and what is the outcome of our engagement?

We regularly communicate with our shareholders through our website, the Annual Report and our quarterly financial results and trading statements. The AGM provides an opportunity for directors to engage with shareholders.

The company secretary oversees communications with individual shareholders, making sure we respond as appropriate to any matters regarding their shareholding. Our share registrar, Equiniti, also has a dedicated team to look after our shareholders' needs.

We build engagement with institutional investors through an investor relations programme, which includes one-to-one conversations, roadshows, group meetings, conferences and industry events. The chairman, senior independent director and other directors also meet with investors where appropriate.

In 2019/20, the chief executive, chief financial officer, other executives, board members and the investor relations team held around 408 meetings with investors. Topics included strategy, financial and operational performance, capital investment, pension, remuneration, capital allocation policy and relations with government and our regulator.

As part of changes to our Directors' Remuneration Policy, the *Remuneration Committee* chair engaged with a number of our investors taking into account their feedback as part of the final Directors' Remuneration Policy put to shareholders for approval (see pages 90 to 97).

The Board received regular reports on movements in the share register, relative share price performance, investor relations activities and engagement with shareholders, analysts and brokers. These matters are discussed by the Board with management.

In September 2019, we delisted from the New York Stock Exchange (NYSE) and terminated our American depository receipts programme in order to reduce reporting costs and complexity, whilst maintaining the highest standards of corporate governance and transparent financial reporting.

Communities

Our communications propositions, services, networks and our colleagues are vital to the communities we operate in. Our place at the heart of so many communities also makes it important we do business ethically and transparently.

Our communities want us to:

- provide the best service and products for a fair price and to be a trusted and reliable company
- help make society and individuals more connected and able to take advantage of an increasingly digital world by helping to improve everyone's digital skills and confidence
- protect the environment through tackling climate change and other environmental challenges.

How do we engage and what is the outcome of our engagement?

Our teams are a key part of communities across the UK and beyond and we capture views from all key stakeholder groups as part of our annual materiality analysis. This helps us to understand which sustainability-related topics are of most importance and this is then reflected in our digital impact and sustainability strategy. The *Digital Impact & Sustainability Committee* oversees our strategy in this area. The committee reviews our performance against our sustainability and responsible business KPIs to monitor our investment in the community.

As technological advancements continue, it is our responsibility to go Beyond Limits to help our communities, people and businesses thrive. We launched one of the key parts of the digital impact and sustainability strategy this year under the Skills for Tomorrow programme, which is designed to empower 10m people in the UK by giving them help to improve their digital skills.

On top of what we invest through our day-to-day business, we have a long-standing commitment to give 1% of profit before taxes to good causes – as a mixture of cash and in-kind investments. This year, we invested £29m or 0.9% of adjusted profit before tax – below our 1% target. This was mainly due to in-kind contributions like volunteering falling as we reorganised our efforts to focus on our Skills for Tomorrow programme but we're still committed to the target, having invested £164m at an average of 0.98% over the last five years.

Throughout the Covid-19 pandemic we have been partnering with the UK National Emergencies Trust that's been set up to support communities in times of greatest need. We'll help to fund the Trust's operations and offer support through the partnership, via our Skills for Tomorrow programme, to help people harness technology to remain safe, healthy, connected and resilient.

Our stakeholders continued

Suppliers

Our suppliers provide products and services that help us execute our strategy. We source from across the world and have suppliers in nearly 100 countries.

Our suppliers want us to:

- pay them in line with our agreed terms
- act ethically and transparently
- work collaboratively with them and build stronger relationships.

How do we engage and what is the outcome of our engagement?

We use our online portal, Selling2bt, to guide prospective suppliers on our requirements and expectations.

As part of complying with the EU General Data Protection Regulations, we carried out a review and a phased uplift of relevant supplier contracts.

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

- choose suppliers using principles that make sure we act ethically and responsibly
- undertake due diligence on them before and after we sign a contract, including checks in relation to financial health, anti-corruption and bribery and compliance checks against our minimum standards, for example, quality management, security and data privacy requirements
- check that goods and services we buy are made, delivered and disposed of in a socially and environmentally responsible way
- measure factors such as suppliers' energy use, environmental impact and labour standards as well as working with them to improve these.

We have created a Digital Garage with our Procurement function to assess and implement the latest technologies, which includes us working with a number of early stage start-ups. This will enhance, digitise and optimise our ways of working, and help our sourcing teams become more agile and customer-focused.

This year the *Audit & Risk Committee* received an update on our Supply Chain Risk Management strategy and also reviewed the supplier KPIs that we use to measure our own effectiveness. The *Audit & Risk Committee* also keeps under review the business we undertake with high risk suppliers.

On behalf of the Board, the *Digital Impact & Sustainability Committee* considers our annual Modern Slavery Statement and recommends its approval by British Telecommunications plc.

We also engage with our suppliers on a number of proactive initiatives such as carbon emissions reduction and plastic packaging initiatives, and progress on these are discussed with the *Digital Impact & Sustainability Committee*.

We remain supportive of the Government's Prompt Payment Code programme in the UK and BT plc has improved the suppliers paid in 60 days monthly run rate from around 60% to over 90% during 2019/20. British Telecommunications plc paid 94.5% of supplier invoices in line with the terms we had agreed with them and aim to comply with local regulations globally.

Supply chain risk from Covid-19 now encompasses the global supply chain and impacts both products and services. Our critical suppliers have been able to deliver products and services to the extent that our broad infrastructure has not been drastically affected so far.

We have c.300 critical suppliers that are key to BT. Our buyers are regularly in touch with these critical suppliers seeking regular updates on their situation and any potential supply impacts.

HM Government

We work with over 1,800 UK public sector customers and support critical services in the UK. Our networks enable vital public services – such as welfare, tax, health, social care, police and defence to function – while protecting citizens' personal data.

It is important to the Government that BT continues to:

- invest in the UK's infrastructure
- support national security.

How do we engage and what is the outcome of our engagement?

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

Our Enterprise team delivers and maintains public sector contracts and services – for example, for the Emergency Services Network.

We operate the critical national infrastructure and support national security; our priority is fulfilling our responsibilities and obligations to the country and our customers.

The Board is updated on key discussions as necessary by the chief executive and relevant *Executive Committee* members.

Under the Communications Act 2003, the Government can ask us (and others) to run or restore services during disasters.

The Civil Contingencies Act 2004 also states that the Government can impose obligations on us (and others) in emergencies or in connection with civil contingency planning.

We respond to initiatives and consultations, and build support for policies that will help us deliver benefits to the UK as well as to our shareholders. Government work covers a wide territory, from investment in infrastructure, national security, regulation of online harms, and trade and economic policy.

In the difficult circumstances created by Covid-19, we have offered direct support to many government and NHS customers. Our assistance with the wider government response has included regular reporting on network resilience, public messaging via SMS, tailored support for vulnerable customers and NHS staff, and sharing of aggregated and anonymised mobile location data to help the Government to assess the effectiveness of restrictions.

Regulators

Communications and TV services are regulated to ensure consistent rules and standards within each jurisdiction to protect consumers and promote competition.

Our main regulatory relationship is with Ofcom in the UK. Ofcom primarily operates under the Communications Act 2003, which gives it powers and duties, and maps the EU regulatory framework for electronic communications to the UK.

Ofcom has general competition powers for the sector and enforces consumer law, alongside other economic regulators and the Competition and Markets Authority (CMA).

In line with its duties, Ofcom's key concerns are:

- furthering the interests of citizens and consumers, where appropriate by promoting competition
- encouraging investment and innovation
- supporting investment in critical digital infrastructure in the UK.

How do we engage and what is the outcome of our engagement?

We have an open dialogue with Ofcom with engagement by our chairman, chief executive and senior leaders. This focuses on how the regulatory regime can help Ofcom's ambition for world-class digital infrastructure in the UK, and enable efficient infrastructure investment, while keeping the market fair and competitive.

Following Ofcom's 2017 Digital Communications Review, we implemented a set of Commitments and a supporting Governance Protocol. These provide Openreach with greater strategic and operational independence, whilst enabling BT to exercise appropriate parent company control.

The *BT Compliance Committee* monitors how BT complies with the Commitments and the chair of the committee, with the support of the Commitments Assurance Office, engages regularly with Ofcom, communications providers and other key stakeholders.

Under the Commitments we've developed and published new Guidance Notes covering regulatory, policy, legal and commercial processes. These encourage and support more efficient and transparent governance across BT and Openreach. Work is ongoing to ensure our information management and internal processes between BT and Openreach is more transparent.

Ofcom has reported that it is broadly satisfied with our progress thus far, and we continue to engage with Ofcom and communications providers to maintain and enhance confidence in our compliance with both the letter and spirit of the Commitments.

Culture and colleagues

Our colleague strategy is summed up by our ambition to make BT a brilliant place to work. Delivering a differentiated customer experience relies on getting our employee experience right. That means making sure everyone at BT feels engaged and inspired to be at their best.

29%

of our *Executive Committee* and their direct reports are women.

c.15,100

This year (excluding acquisitions) we hired almost 15,100 people; 11,100 of these were in the UK.

4,300

In 2019/20 we took on almost 3,800 new apprentices and 500 graduates.

25%

Around 25% of our workforce (25,900) and 29% of our management (13,900) are women, including 3 out of 12 Board members. Our workforce includes around 78,600 men. 33,300 of these are in management roles.

Building future capabilities and careers

Our business is constantly shaped by fast technological change. So we need to continuously renew our skills, capabilities and behaviours.

The way people look at current and prospective employers is also changing. They expect different career experiences – such as flexible working, career breaks, multiple careers and for their employer to share their values.

We're changing our career planning and capability development practices in line with these trends. For example, we now outline various career options and help our colleagues re-map their careers to remain relevant. We're embracing more flexible ways of working to attract people from every segment of society. And we have clearly articulated our purpose so people know what we stand for.

Our development toolkit provides a range of learning, planning and networking opportunities – tailored so people can learn how, when and where they choose.

Our learning offering focuses not only on technical skills, but also on broader key behavioural competencies – such as resilience and adaptability.

We developed a new tool that provides greater transparency of roles, outlining the full range of career opportunities at BT.

We've created networks like TechWomen and the Aspire programme, and specialist communities for subjects like engineering. Workplace helps to share learnings and build skills. All these opportunities allow our colleagues to maximise the power of communities and crowdsource knowledge.

We help our colleagues develop life skills outside the workplace too – like digital and financial skills. We also encourage our colleagues to take their skills back into society through volunteering, such as our Skills for Tomorrow programme. This year, that amounted to c.3,500 days of volunteering, and we're aiming to grow that in the year ahead as more of our colleagues support the programme.

c.13%

Around 13% of our UK colleagues are from a black, Asian or minority ethnic background.

c.13,400

In 2019/20, c.13,400 people left the company. Around 10,000 left through natural attrition and 3,400 left through paid leaver programmes as part of our drive to create a simple, lean and agile business.

4.8%

Our overall median gender pay gap is 4.8%. Our mean gender pay gap is 4.7%. Both are well below national and industry averages, but we won't stop until they are as close to zero as possible.

As a Disability Confident Leader[a] we have a positive approach to attracting, recruiting and developing our disabled talent. That includes our range of support services and processes to help our managers make necessary adjustments for new and existing disabled colleagues who work here. We have an active Colleague Network for our disabled and neurodiverse colleagues who maintain active links with our team of Diversity and Inclusion specialists. We are also signatories of the Valuable 500 initiative.

Pay and benefits

We regularly review our pay and benefits to make sure they are competitive, sustainable and fair. Most of our UK-based engineering and support colleagues' pay is negotiated through collective bargaining with our recognised trade unions.

As part of an initiative to encourage everyone to be a long-term shareholder in BT and align our colleagues' interests with the long-term success of the company, they will each receive an annual award of shares through the yourshare plan. We also give our colleagues the opportunity to participate in all employee share plans such as save as you earn (saveshare) and share incentive plan (directshare).

Our executives may also get long-term share awards. These are determined by group performance against the long-term strategy of the company as well as personal performance.

Incentives for Openreach colleagues are based on a combination of personal contribution and Openreach performance.

[a] For more information on what makes a Disability Confident Leader see **gov.uk/government/publications/disability-confident-guidance-for-levels-1-2-and-3/level-3-disability-confident-leader**

We offer our colleagues other benefits including retirement savings plans and other country-specific benefits.

Health and wellbeing

Leading business performance is underpinned by the highest levels of employee wellbeing. We focus on updating and improving the range of physical, mental and emotional support we provide to our colleagues.

We continue to work towards zero avoidable harm in relation to safety incidents. There were 4% fewer safety incidents than last year, helping to achieve an incident rate of 0.22 per 200,000 working hours for lost time injuries, the lowest year-end rate yet reported. And we're rolling out a new fall-arrest harness system for our colleagues working at height to further reduce risk from this activity.

From April 2019, our core reporting system also captures all sickness absence for employees in India. This change, as well as a slightly upward trend overall, has seen an increase in the rate for the group to 3%.

We have enhanced our colleagues' wellbeing support services with an innovative web portal that holds wellbeing resources, activities, support and information all in one place. Covering topics like family, money and health, anyone in BT can access it – anywhere and anytime. We have now reached more than 1,880 people through our line manager mental health awareness training.

This year, BT-funded rehabilitation services got over 96% of people needing treatment, back to work on full duties.

This year we have investigated employee wellbeing via an in-depth survey of thousands of employees plus follow-up focus groups of hundreds more. The results are informing updates to our health and wellbeing strategy.

Introducing the Colleague Board

We want the *Colleague Board* to bring the whole of BT and our colleagues closer together.

Steve Tucker
Retail area manager and member of our *Colleague Board*

During the year, we established a *Colleague Board* to give our people a louder voice at the table from across the business.

The *Colleague Board* was inspired, in part, by the UK Corporate Governance Code 2018 requirement for the Board to engage with our colleagues. The Board spent time discussing the various options with management, the approach taken by other companies and how this would work for us given our business and global reach. The Board was keen that the arrangement would lead to meaningful input and change for our colleagues across the organisation. Accordingly, a *Colleague Board*, with members drawn from across the business, including a designated non-executive director, felt like the right mechanism. In October 2019, Isabel Hudson was appointed as the designated non-executive director for workforce engagement and a member of the *Colleague Board*. Isabel acts as the formal connection to the Board and reports back to the Board on key discussions with its members. The agenda and minutes of *Colleague Board* meetings are also shared with the Board.

All directors continue to engage with colleagues as part of BT site and office visits, as well as through other Board and committee updates.

Membership and key responsibilities

During the year, all colleagues had the opportunity to apply to join the *Colleague Board*. The process included asking at least ten colleagues to endorse their application. Almost 1,000 applications were received and a shortlist of candidates were interviewed and asked to produce video answers to a couple of questions. Openreach's shortlist was provided by the Openreach team. The *Colleague Board* nominations committee (Isabel Hudson, Philip Jansen, Sabine Chalmers, group general counsel, and Alison Wilcox, group HR director) decided on the final ten members, with representatives from across the customer-facing and corporate units, plus two proposed invitees from Openreach.

The *Colleague Board* is chaired by the chief executive. Alison Wilcox and Sabine Chalmers attend all meetings. The company secretary is secretary to the *Colleague Board* and attends all meetings. The chairman has also been invited to attend meetings. The HR, communication and company secretarial teams support Isabel Hudson (the designated non-executive director for workforce engagement) and the *Colleague Board*.

Management seeks the views of the *Colleague Board* on significant programmes and initiatives across the business, how these align with our values and culture and on communications with our colleagues.

It also discusses colleague communications and engagement mechanisms which we already have in place, for example the Your Say survey, and it connects with other networks and forums across the group to understand trends and priorities. Workplace is one of the key internal channels used by the members to communicate with all of our colleagues.

We look forward to using the *Colleague Board* throughout 2020/21 to shape the business positively and strengthen the relationship between the Board and our colleagues.

Activities in 2019/20

Ahead of our first meeting in January 2020, we provided the *Colleague Board* with training and support on its role. This included guidance to help the members communicate with the rest of our colleagues across the organisation. The *Colleague Board* will meet at least four times a year. Meeting agendas will include topics from the business, as well as those suggested by members themselves.

The first meeting covered:

- the chief executive's thoughts on his first year at BT and key initiatives that have taken place
- the ongoing work in relation to BT's long-term ambition
- feedback on BT's current purpose and values to help management review whether we should keep or change these
- current communication methods across the business and how we manage messaging, including from the *Colleague Board* to the rest of the organisation
- potential topics for future meetings.

Input and feedback from the *Colleague Board* included:

- views on our purpose and values, with comments shared and discussed by the *Executive Committee*
- recognition that there are a number of business initiatives taking place throughout the year and agreement that a series of additional workshops for the members would be held to discuss matters in order to enable the *Colleague Board* to shape these and input into proposed communications.

Communication with the rest of our colleagues:

The *Colleague Board* discussed and agreed how best to communicate with our colleagues to:

- ensure all our colleagues know the key things that were discussed at meetings
- ensure colleagues understand and see the value and the role of the *Colleague Board*
- provide an opportunity for our colleagues to feed into future agenda items
- share members' insights where they have been involved in developing a new business initiative.

> **The establishment of the *Colleague Board* reflects how serious BT is about engaging with colleagues across the business and I have been impressed by the enthusiasm and engagement of the members and the quality of discussions.**

Isabel Hudson
Designated non-executive director for workforce engagement

> **Our colleagues play a big part in who we are and what we do, so I want to know what matters to them and how they feel about the things we do.**

Philip Jansen
Chief executive and chair of the *Colleague Board*

Section 172 statement

In accordance with section 172 of the Companies Act 2006 each of our directors acts in the way that he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole.

Our directors have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term
- interests of our colleagues
- need to foster the company's business relationships with suppliers, customers and other key stakeholders
- impact of the company's operations on communities and the environment
- desirability of the company maintaining a reputation for high standards of business conduct
- need to act fairly as between members of the company.

The directors take into account the views and interests of a wider set of stakeholders and you can find out more about how BT engages with its stakeholders on pages 24 to 29. During the year the Board and its committees received papers, presentations and reports, participated in discussions and considered the impact of the company's activities on its key stakeholders (wherever relevant). We acknowledge that every decision we make will not necessarily result in a positive outcome for all of our stakeholders and the Board frequently has to make difficult decisions based on competing priorities. By considering the company's purpose and values together with its strategic priorities and having a process in place for decision making, we do, however, aim to balance those different perspectives.

How does the Board engage with stakeholders?

The Board will sometimes engage directly with stakeholders on certain issues, but the size and distribution of our stakeholders, and of BT, means that stakeholder engagement often takes place at an operational level. The Board considers information from across the organisation to help it understand the impact of BT's operations, and the interests and views of our key stakeholders. It also reviews strategy, financial and operational performance, as well as information covering areas such as key risks, and legal and regulatory compliance.

As a result of these activities, the Board has an overview of engagement with stakeholders, and other relevant factors, which enable the directors to comply with their legal duty under section 172 of the Companies Act 2006. For details on how the Board operates and the way in which the Board and its committees reach decisions, including the matters we discussed during the year, see pages 70 to 83.

Key strategic decisions

Decisions taken by the Board and its committees consider the interests of our key stakeholders, the impacts of these decisions and the need to foster the company's business relationship with customers, suppliers and other stakeholders. Papers submitted to the Board consider the impact on key stakeholders.

Directors have had regard to the matters set out in section 172(1)(a)-(f) of the Companies Act 2006 when discharging their section 172 duties. The following are some of the decisions taken by either the Board or its committees during the year and the considerations given to stakeholder interests and impacts:

Delisting from the New York Stock Exchange (NYSE) and termination of BT's American depositary receipts (ADR) programme and deregistration from the US Securities and Exchange Commission (SEC)

As part of the Board's decision to delist from the NYSE, terminate our ADR programme and subsequently deregister from the SEC, as announced on 14 August 2019, it took into consideration a number of stakeholders, including: our investors based in North America and the type of shares (ordinary shares or American depositary shares) they predominantly held; our colleagues who were participants in our US all-employee share schemes and therefore holders of ADRs; and the holders of US bonds given these were registered with the SEC. The Board also took into consideration the current reporting costs and complexities of a listing on the NYSE and registration with the SEC.

Sale of BT's domestic operations in Spain

During the year, the Board considered and approved the proposal to sell BT España, which was announced on 16 December 2019. Consideration was given to the different stakeholders including the impact on our colleagues and customers (both multi-nationals and local) and how divestment would enable us to continue to deliver on our ongoing transformation strategy of Global and our future business operations in Spain.

Directors' Remuneration Policy

As part of developing the new Directors' Remuneration Policy (the Policy), the group HR director and reward team liaised with various stakeholders including the *Executive Committee* and all non-executive directors to understand their views of the current remuneration arrangements at BT and the alignment of remuneration to our strategy and priorities over the medium term. These views were shared with the *Remuneration Committee* alongside information on the wider workforce remuneration structure, external market practice, corporate governance regulations and institutional guidelines. Consideration was given to ensuring we continue to have in place a remuneration structure that benefits all of the company's stakeholders, whilst ensuring executive reward aligns with shareholders' long-term interests. During the year, the *Remuneration Committee* conducted a comprehensive review of the current Policy following which the *Remuneration Committee* chair consulted extensively with our largest shareholders and their representative bodies on the proposed changes to the Policy. This helped shape the committee's thinking and the development of the new Policy. The committee recommended the Policy to the Board for approval, which will be subject to a binding shareholder vote at the 2020 AGM.

Non-financial information statement

Our integrated approach to reporting means that the requirements of the Non-Financial Reporting Directive required pursuant to the Companies Act 2006, including a description of policies, due diligence processes and outcomes, where applicable, are addressed throughout the Strategic report:

Non-financial information	Section	Pages
Business model	Our business model	14
Policies	Our stakeholders Digital impact and sustainability	24 36
Principal risks	Principal risks and uncertainties	52
Key performance indicators including performance against our strategic non-financial performance measures	Our key performance indicators	40
Environmental matters	Digital impact and sustainability	36
Colleagues	Our stakeholders	24
Human rights	Digital impact and sustainability	36
Social matters	Digital impact and sustainability	36
Anti-bribery and anti-corruption	We follow local and international law, including anti-corruption and bribery laws. The UK Bribery Act and US Foreign Corrupt Practices Act (FCPA) have extraterritorial reach, so cover our global operations. We also have to make sure we follow trade sanctions and import and export controls.	

For more information on our codes of practice and employee policies, see **bt.com/ourpolicies** that support our key outcomes for all of our stakeholders.

Digital impact and sustainability

We think everyone should be able to thrive in today and tomorrow's digital world.

In the UK we're focusing our efforts on a major issue that affects the economy and real lives – the fact that millions of people lack the digital skills they need. We aim to make a positive and measurable difference through our Skills for Tomorrow programme, which we launched this year.

We also continue to take a sector-leading position in tackling climate change and environmental challenges. We'll be a net zero carbon business by 2045, and we continue to champion human and digital rights.

These priorities are at the heart of our digital impact and sustainability strategy:

Our 3 strategic focus areas

	1. Building better digital lives	2. Championing human and digital rights	3. Tackling climate change and environmental challenges
Our ambitions	Reach 10m people in the UK with help to improve their digital skills by 2025.	Keeping people secure online, protecting privacy and freedom of expression, and supporting efforts to tackle modern slavery.	A sector-leading approach to climate action, with a target to become a net zero carbon business by 2045.
Our progress	• Launched our Skills for Tomorrow programme, including an online portal containing free resources. • 2.8m people reached in total since 2014/15. • 20 Online Centres sponsored so far with the Good Things Foundation. • 3,300 Work Ready graduates since 2014.	• Signatory to UN Global Compact. • Approach steered by the UN Guiding Principles on Business and Human Rights. • Founding partner of the UK Modern Slavery Helpline and Tech Against Trafficking. • Joined World Business Council for Sustainable Development CEO call to action on human rights.	• 42% reduction in carbon intensity since 2016/17. • 92% of the electricity we consume around the world is now renewably sourced – and we're at 100% for our directly purchased electricity in the UK. • We've now helped our customers save three times as much carbon as our own end-to-end carbon emissions – one year ahead of target. • 12 suppliers signed up to climate clause. • New plastics policy and commitment.
Supporting the UK's ambitions	Giving everyone access to the digital skills they need is a key strand of the UK Government's Digital Strategy.	The UK Government is committed to tackling the crime of modern slavery that affects an estimated 40m people globally.	The UK Government's target is to achieve net zero emissions by 2050.
Contributing to the UN Sustainable Development Goals	4 Quality Education – Target 4.3 + 4.4 5 Gender Equality – Target 5b 9 Industry, Innovation and Infrastructure – Target 9.1 + 9c	8 Decent Work and Economic Growth – Target 8.7 10 Reduced Inequalities – Target 10.2 16 Peace, Justice and Strong Institutions – Target 16.10	12 Responsible Consumption and Production – Target 12.5 + 12.7 13 Climate Action – Target 13a

Our ambitions on digital skills and reducing our carbon emissions intensity are of such importance that we have revised our KPIs (effective from 2020/21) to include both. This is linked to 10% of the 2020/21 annual bonus. You can find more on our directors' remuneration on page 84 and changes to our KPIs for 2020/21 on page 40.

1. Building better digital lives

We want to empower people to make the most of life to support their daily lives, their families, their careers and their businesses.

In October 2019, we launched Skills for Tomorrow. It's a major new programme aiming to give 10m people the skills and confidence they need to flourish in the digital world. We're partnering with some of the UK's leading digital skills organisations to offer free help, and ensuring that even during uncertain times we are able to benefit those who need it most. We have resources for school children, parents, teachers, job-seeking 18-24 year olds, people working in small businesses, and older and more vulnerable people.

The Skills for Tomorrow online portal is the gateway to free courses and other materials. It covers everything from getting started and staying safe online to digital skills for the workplace.

Barefoot, our partnership with Computing at School, gives teachers the resources and skills to bring computing lessons alive. The Barefoot website has now been accessed by teachers from across the majority of UK primary schools. It helps 5-11 year-olds develop computational thinking skills as part of the computing curriculum. Barefoot has reached more than 85,600 teachers, with support from our volunteers who help to train them. Through these teachers, Barefoot has reached more than 2.8m children since 2014. And we're aiming to increase that to 5m by 2025.

2.8m

Barefoot has reached more than 2.8m children since 2014. And we're aiming to increase that to 5m by 2025.

Our Work Ready programme prepares young people for the world of work – giving them practical skills to make them more employable. The programme also provides hands-on tech skills and work experience to young people not currently in education, employment or training. There have been over 3,300 Work Ready graduates since 2014. From 2020, the programme is being embedded to support grassroots development of young people and community clubs as part of BT's partnership with the four home nations of the FA (Football Association).

We're also helping older, more vulnerable, and digitally-excluded people to gain new skills and confidence. Our partnership with Good Things Foundation sponsors 20 Online Centres who offer face-to-face and online training.

We aim to help 1m people working in small businesses by 2025 – developing digital routes to market while keeping their businesses safe. This year we ran five regional workshops in partnership with Google Digital Garage and partnered with LinkedIn Learning and Small Business Britain to support small businesses across the UK.

Partnership is central to our approach – we believe we can make more meaningful change if we work together. We're a founding member of FutureDotNow, a new coalition of leading companies and non-governmental organisations aiming to empower everyone to thrive in a digital UK.

1m

We aim to help 1m people working in small businesses by 2025 – developing digital routes to market while keeping their businesses safe.

In India, we partner with the British Asian Trust to help boost youth skills – focusing on empowering over 100,000 adolescent girls through digital learning. We are also working with the NGO Katha to train 200 young people as digital entrepreneurs, who'll reach an estimated 300,000 young learners at local schools.

For more information on Skills for Tomorrow see **bt.com/skillsfortomorrow**

Supporting people through the Covid-19 crisis

With large numbers of people practising social distancing, self-isolation or being confined to their homes during the Covid-19 pandemic, it's more important than ever to ensure that those with low or no digital skills can keep in touch with family and friends, and access vital health services.

Our Skills for Tomorrow programme offers a wide range of free resources and information to help people build their digital skills and work online effectively wherever they are. Although face-to-face training has been cancelled during the UK Government-mandated lockdown, the programme's 'digital first' approach means participants can still access extensive resources through the Skills for Tomorrow portal.

The portal includes key topics such as how to navigate the NHS website, how to access GP online services, how to make video calls, and how to shop or bank online. There are also engaging activities to help children develop their computational thinking skills and families learn how to stay safe online. We've reached out through social media channels to offer regular tips and guidance on the digital skills people need to manage their lives and work online.

Digital impact and sustainability continued

2. Championing human and digital rights

We respect everyone's rights and freedoms – both on and offline.

Our business helps people realise their potential, and enjoy their rights and freedoms. We give them better connectivity while keeping their information secure online.

But our global communications technology could also have negative impacts – especially on customers' rights to privacy and free expression online. We must work to support and respect the rights of anyone affected by our business.

We comply with applicable modern slavery acts and follow international standards on human rights. They include the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, and the UN Guiding Principles on Business and Human Rights.

Each year, we report on our work to combat modern slavery at **bt.com/modernslavery**. We set out our overall approach in our human rights policy at **bt.com/humanrights**

We continue to champion human and digital rights through strategic partnerships and collaborations. This includes the Global Network Initiative (GNI), a global multi-stakeholder organisation dedicated to responding to evolving privacy and freedom of expression challenges. We're committed to implementing the GNI Principles.

Our other key partnerships and memberships include Tech Against Trafficking (we're co-founders of a coalition of organisations, exploring ways to use technology to combat modern slavery), the Marie Collins Foundation (supporting the training of professionals responding to children who have been harmed or abused online) and the Centre for Sport and Human Rights (helping the business of sport fully support human rights). We also support Unseen, the UK Charity which runs the UK Modern Slavery Helpline.

We have processes and procedures in place to identify and address our potential and actual human rights impacts throughout our business. Within our supply chain, we have mandatory contractual standards on working conditions. We assess the risks of our suppliers not meeting these conditions, and follow up where improvements are needed.

We have embedded checks in our sales process, used to find and address potential risks that our products or services might be misused by customers in ways that could affect someone's rights.

3. Tackling climate change and environmental challenges

We've been a climate action leader for more than 25 years. Now we're stepping up even further.

We're committed to implementing the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD), fully embedding them over the coming year. They're an important step towards enabling a net zero carbon economy.

Climate scenario analysis

Climate-related risks and opportunities extend beyond normal business strategic planning cycles. And they have both near- and long-term potential impact.
In line with the TCFD recommendations, we've carried out scenario analysis on the impacts of 2°C and 4°C rises in global temperatures above preindustrial levels by 2100. This helps us understand the potential impact of climate on our business. We looked at impacts out to 2030. First, assuming no changes to our activities. Then, accounting for the transition and mitigation plans we have in place.

The 2°C scenario – We looked at the disruptive policies and regulatory changes of moving from today's business-as-usual to a low carbon economy. The main risks for BT of a 2°C scenario include the effect of accelerated and widespread carbon pricing; diesel and petrol vehicle bans; and higher costs for renewable energy if demand outstrips supply.

The 4°C scenario – We considered physical risks, like more regular extreme weather, and big temperature and rainfall changes. In the UK, more storms and floods could lead to more service disruption, damage to our assets (like exchanges) and provide access problems for our engineers. These could all increase our operational costs.

Globally, extreme weather could affect our customers and cause service disruption. It could also make it harder for us to source raw materials from key suppliers who operate in nearly 100 countries.

Under both scenarios we face financial risks by 2030. The most likely impact will be somewhere between the two. But there are also opportunities in a low carbon economy – particularly in how our products, services and infrastructure can help.

30,000
We have one of the largest vehicle fleets in the UK (over 30,000 vehicles). We're committed to transitioning as much of our fleet as we can to run on electric and alternative fuels by 2030.

We respond to physical climate change impacts identified. So, in the UK we plan on updating our Flood Defence strategy in light of higher overall flood risks. And we'll keep monitoring the effect of other extreme weather events, like increases in lightning.

You can find more information on climate-related risks on page 63.

Responding to climate-related risks and opportunities

We're already acting on the climate-related risks and opportunities we've found.

We hit our first science-based target four years early in 2016 (cutting carbon emissions intensity by 80% by 2020). We're speeding up our activity and now aim to cut the carbon intensity of our operations by a further 87% by 2030. This is in line with the latest science to limit global warming to 1.5°C above pre-industrial levels. **And by 2045, we aim to be a net zero carbon emissions business.**

Reducing our carbon emissions intensity will be one of our KPIs from 2020/21 and is included in our 2020/21 annual bonus.

You can find more on our directors' remuneration on page 84 and changes to our KPIs for 2020/21 on page 40.

We're already mitigating transition risks: we're committed to purchasing 100% renewable electricity; decarbonising our buildings; moving to a low carbon vehicle fleet; and helping suppliers and customers reduce their own carbon use.

Switching to renewable electricity: 92% of the electricity we consume around the world is now renewably sourced – and we're at 100% for our directly purchased electricity in the UK.

Decarbonise our buildings: This year we invested £45.3m in energy management projects in the UK, which cut operating costs and contributed to a global energy reduction of 65GWh. These investments have saved us £343m since 2009/10.

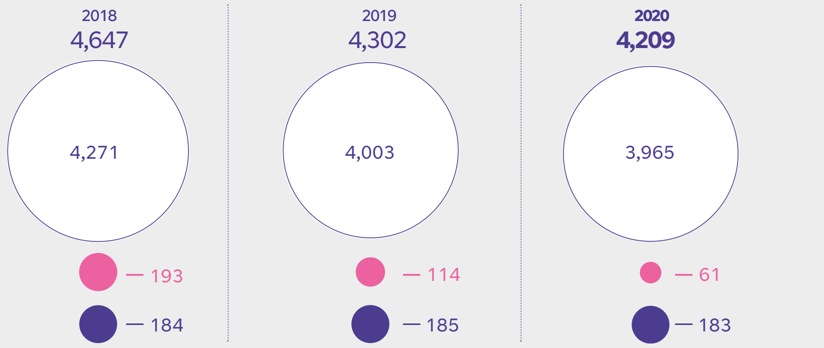
Transition to a low carbon fleet: We have one of the largest vehicle fleets in the UK (over 30,000 vehicles), which makes up two thirds of our operational emissions (Scopes 1 and 2). We're committed to transitioning as much of our fleet as we can to run on electric and alternative fuels by 2030.

Helping suppliers to cut carbon: Over two-thirds of our end-to-end carbon emissions come from our supply chain. Our goal is to cut supply chain (scope 3) emissions by 29% by 2030 (compared to 2016/17 levels). This year we reached 8.0%.

Our worldwide greenhouse gas emissions[a]

Year ended 31 March (CO_2e Ktonne)

- Scope 1: Direct emissions from our own operations (e.g. fuel combustion).
- Scope 2: Indirect emissions from the generation of our purchased energy (mainly electricity).
- Scope 3: Including supply chain, customer use of our products, and other indirect emissions (such as employee commuting).



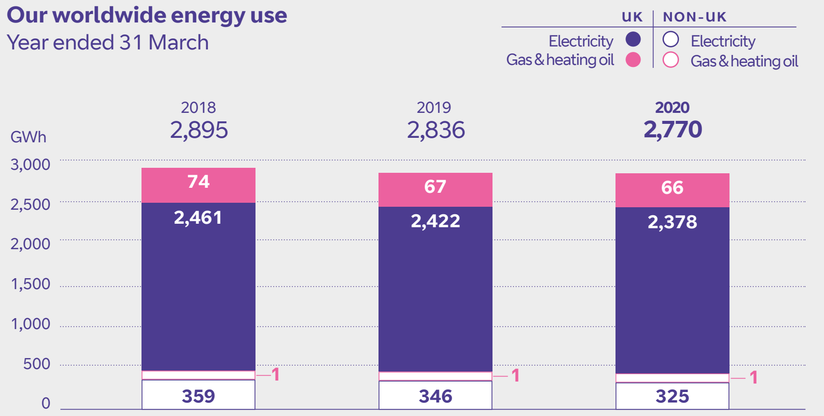
[a] We restate previous years' data when we think subsequent information is materially significant (e.g. replacing estimates with measured figures).

We now include all scope 3 emissions in our reporting. Figures exclude third-party consumption. Scope 2 data uses market-based calculation.

For full methodology and further data see **bt.com/digitalimpactandsustainability**

Our worldwide energy use

Year ended 31 March



Helping customers cut carbon: Information Communication Technology could reduce UK carbon emissions by around 24% in 2030. Our products and services help customers cut energy, fuel and emissions by avoiding travel and being more efficient. This year, we helped them avoid c.13m tonnes of carbon. These products generated £5.5bn in revenue.

Overall we cut total emissions from our global operations (scopes 1 and 2) by 18.6% over the last year to 243 Ktonnes of CO_2e. Since 2016/17, we've reduced our carbon intensity by 42% to 18 tonnes of CO_2e per £m value added[a]. Combined together, this means we've now achieved our 3:1 carbon abatement goal one year early, by helping customers to save three times as much carbon as our own end-to-end carbon emissions.

For more information, see the Digital Impact and Sustainability Report at **bt.com/sustainabilityreport**

Wider environment aspects

In the UK, we recycle or recover almost all our waste. This year, we produced over 38 Ktonnes of UK waste, 30% more than last year – however 99.5% of this was recovered or recycled. We've introduced a clause in new BT customer contracts to incentivise the return of products and thereby reduce electronic waste. Customers are informed they'll incur a fee for non-return of home hubs and TV set-top boxes at the end of their contract. By refurbishing or recycling used equipment, we'll reduce the amount going to landfill sites.

We're reducing single-use plastics in our operations, under a new policy launched this year. And we've set a 2025 target to reuse, recycle or compost 100% of the plastic packaging we send to customers.

For more information on our environmental policy, see **bt.com/environmentalpolicy**

[a] BT adopted IFRS 16 on 1 April 2019. Prior to adoption, EBITDA used to calculate value added was on an IAS 17 basis.

Our key performance indicators

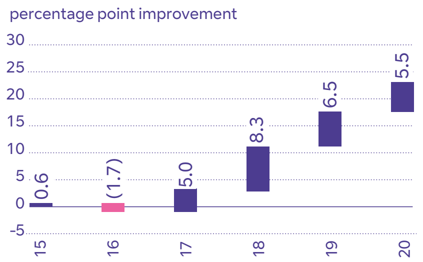
Our customer experience performance improved for the year, but we want to go further. Our financial results were overall in line with the guidance we set in July 2019[a].

We used five key performance indicators (KPIs) to measure progress against our strategy this year – two operational and three financial. Our operational KPIs were: improvement in customer service, measured using Group Net Promoter Score (NPS) and Keeping Our Promises. Our financial KPIs were: change in adjusted[b] revenue; adjusted[b] earnings per share; and normalised free cash flow[c].

Alternative performance measures
Reconciliations of these financial measures to the closest IFRS measure are set out in the Additional information section on pages 204 to 206.

[a] Outlook originally provided in May 2019 was updated in July 2019 for the effect of IFRS 16. The range of group adjusted[b] EBITDA was updated from £7.2bn - £7.3bn to £7.9bn - £8.0bn.
[b] Adjusted measures exclude specific items, as explained in the Additional information on page 204.
[c] Free cash flow after net interest paid and payment of lease liabilities, before pension deficit payments (including the cash tax benefit of pension deficit payments) and specific items as explained in the Additional information on page 206.

Net Promoter Score (NPS)
At 31 March



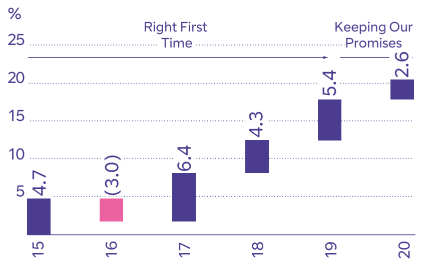
This tracks changes in our customers' perception of BT since we launched the measure in April 2016. It's a combined measure of 'promoters' minus 'detractors' across our business units. Group NPS measures Net Promoter Score in our retail business and Net Satisfaction in our wholesale business.

Group NPS was up 5.5pp (2018/19: up 6.5pp).

Despite these improvements, our strategic priority is to truly differentiate ourselves on customer experience, and we will keep looking for ways to do that.

You can read more about our approach to customer experience on page 18.

Keeping Our Promises
At 31 March



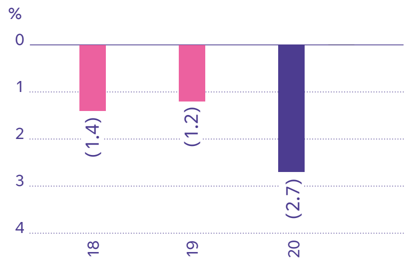
This customer service measure is focused on us meeting the commitments we make to customers and providing a more reliable service. That could be keeping to appointment times, completing orders in the promised timeframe or fixing faults when we say we will. As well as improving service and customer experience, improving our performance means less work required to fix mistakes and so helps us to cut costs.

Keeping Our Promises was up 2.6% (2018/19: up 5.4%).

Improving our service is key to providing a differentiated customer experience. We're making good progress and every customer-facing unit has improved its Keeping Our Promises score.

You can read more about our approach to customer experience on page 18.

Change in adjusted[b] revenue
Year ended 31 March



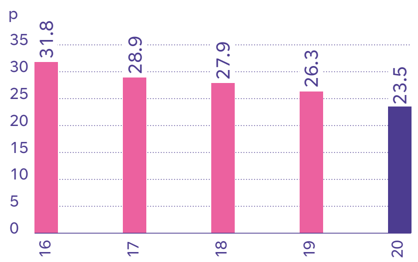
Adjusted[b] revenue excludes the impact of specific items to reflect the underlying performance of the group.

Change in adjusted[b] revenue was down 3% (2018/19: down 1%).

This mainly reflects the impact of regulation, declines in legacy products, strategic reductions of low margin business and divestments. This was partially offset by growth in new products and services and higher rental bases of fibre-enabled products and Ethernet.

You can read more on how our customer-facing units performed from page 49.

Adjusted[b] earnings per share
Year ended 31 March

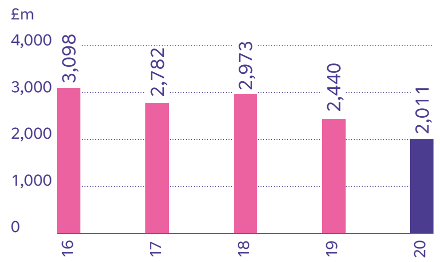


This is the adjusted[b] profit after tax attributable to shareholders divided by the weighted average number of issued shares. Adjusted[b] earnings per share gives a comparable and consistent way of measuring our business performance over time.

Adjusted[b] earnings per share decreased 11% to 23.5p (2018/19: down 6% to 26.3p) impacted by the fall in profit before tax.

Adjusted[b] profit after tax fell 11% to £2,324m, impacted by the higher upfront interest expense associated with IFRS 16 lease liabilities recognised on 1 April 2019.

Normalised free cash flow[c]
Year ended 31 March



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

We generated £2,011m of normalised free cash flow[c]. This was down £429m from last year, and in line with our guidance range of £1.9bn to £2.1bn.

The fall of £429m or 18% mainly reflects increased cash capital expenditure, lower EBITDA, the deposit for UEFA club football rights and higher interest payments, partially offset by one-off cash flows and working capital phasing.

Changes to our KPIs

As our strategy develops we continue to evolve our KPIs to make sure they are the best measures of performance against our strategy. With this in mind, we have updated our KPIs with effect from 2020/21 to more accurately reflect our strategic priorities.

We will report on these revised KPIs from 2020/21. You can see how we have performed against the climate change and digital skills KPIs this year on page 42.

In determining our directors' remuneration, we consider performance against a number of measures, including some linked to the above KPIs.

To read more about directors' remuneration please see page 84.

2019/20
- Brand NPS
- Keeping Our Promises
- Change in adjusted[b] revenue
- Adjusted[b] earnings per share
- Normalised free cash flow[c]

2020/21
- Brand NPS
- Customers connected to FTTP
- Customers connected to 5G
- % reduction in CO_2 emissions intensity
- Cumulative number of people trained on digital skills
- Reported revenue
- Adjusted[b] EBITDA
- Normalised free cash flow[c]
- Organic EBITDA margin
- Reported capital expenditure
- Organic return on capital employed (ROCE)

Link to strategy

1. Differentiated customer experience
2. Best converged network
3. Simplified, lean and agile business
4. A valued partner helping build digital lives

Financial

①②
Reported revenue – Revenue as reported in our income statement

③
Adjusted EBITDA – Earnings before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense

③
Normalised free cash flow – Free cash flow after net interest paid and payment of lease liabilities, before pension deficit payments (including the cash tax benefit of pension deficit payments) and specific items

③
Organic EBITDA margin – Margin calculated using adjusted EBITDA and revenue before specific items, divestments and the impact of foreign exchange

②
Reported capital expenditure – Additions to property, plant and equipment and intangible assets in the period

①②③
Organic ROCE – Earnings before interest, tax, specific items, divestments and the impact of foreign exchange as a percentage of total assets less current liabilities

Operational

①
Group NPS – Group NPS measures Net Promoter Score in our retail business and Net Satisfaction in our wholesale business

②
Total Openreach FTTP connections – The number of premises connected to Openreach's FTTP network

②
Total 5G connections – The number of customers connected to our 5G products

④
Percentage reduction in CO_2 emissions intensity – Reduction in our CO_2 emissions intensity. This is to track performance against our target to reduce carbon emissions intensity by 87% in 2030 compared to 2016/17 levels

④
Cumulative number of people reached to help improve their digital skills – Number of people reached to improve their digital skills through our Skills for Tomorrow programme against our ambition to reach 10m people in the UK by 2025

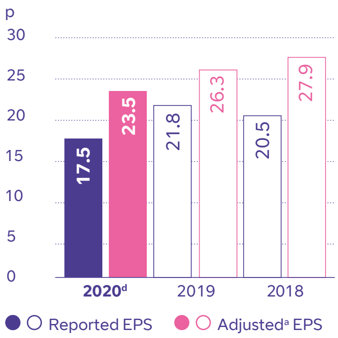
Our performance as a sustainable and responsible business

	Ambition	2018/19 performance	2019/20 performance	Status
Building a better digital society	By 2025, to reach 10m people in the UK to help to improve their digital skills[a]	N/A	2.8m people	> Ongoing target
Tackling climate change and environmental challenges	By 2045, to become a net zero carbon emissions business[b]	298,717 tonnes CO_2e	243,214 tonnes CO_2e	> Ongoing target
	By 2030, to cut our carbon emissions intensity[c] by 87% compared with 2016/17 levels	26% reduction achieved[d]	42% reduction achieved	> Ongoing target
	By end of 2020, to enable customers to reduce their carbon emissions by at least three times the end-to-end carbon impact of our business	2.9:1 achieved[d]	3.1:1 achieved	Target met
	By end of 2020, to buy 100% of our electricity worldwide from renewable sources, wherever markets allow	86% bought from renewable sources[d]	92% bought from renewable sources	> Ongoing target
Investing in society	Societal investment: To invest more than 1% of adjusted profit before tax (PBT) in society	0.83% of PBT invested 1.02% 5-year average	0.90% of PBT invested 0.98% 5-year average	Target failed
Colleagues	Employee engagement index: To maintain or improve our relationship with our colleagues	77% favourable	79% favourable	Target met
	Gender: By end of 2020/21, 40% of our senior management team[e] will be women	31% women on senior management team	35% women on senior management team	> Ongoing target
	Sickness absence rate: To maintain or cut the percentage of calendar days lost to sickness	2.64% calendar days lost to sickness	3.00% calendar days lost to sickness[f]	Target failed
	Ethical perception: To maintain or improve our colleagues' perception of our ethical performance	86% favourable	93% favourable	Target met
Supply chain	Carbon emissions: To reduce our supply chain carbon emissions by 29% by 2030 compared to 2016/17 levels	8.4% cut achieved[d]	8.0% cut achieved	> Ongoing target

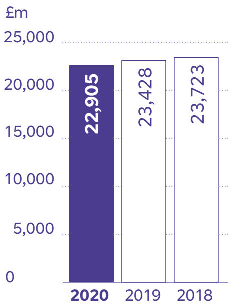
[a] We've revised the wording of this ambition from providing 'training' to 'help' improve digital skills, to reflect the broader range of support we're providing as part of our Skills for Tomorrow programme.
[b] Measured for scopes 1 and 2 greenhouse gases.
[c] Measures for scopes 1 and 2 greenhouse gases, per unit of gross value added.
[d] We restate previous years' data when we think subsequent information is materially significant (e.g. replacing estimates with measured figures).
[e] Senior management team: our top c.600 leaders.
[f] Our core systems reporting now captures sickness absences for our employees in India. This has led to a slight upward trend, as well as a restating of our 2018/19 result (from 2.36% to 2.64%).

Group performance
Introduction from our Chief Financial Officer

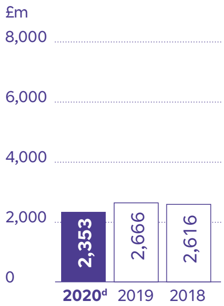
KPI
Earnings per share



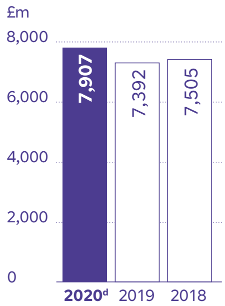
Revenue
£ 22,905m
(2)%



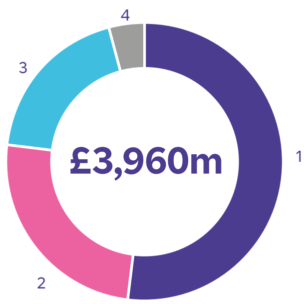
Profit before tax
£2,353m
(12)%



Adjusted[a] EBITDA
£7,907m
+7%

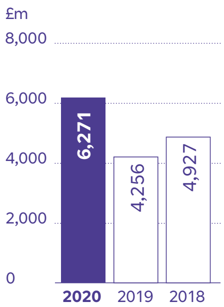


2019/20 Capital expenditure

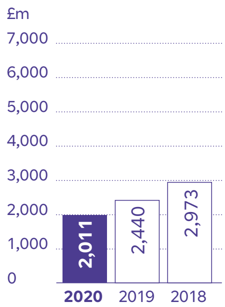


1. Network investment	52%
2. Customer driven investment	25%
3. Systems and IT	19%
4. Non-network investment	4%

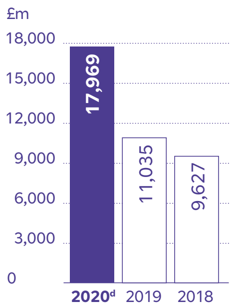
Operating cash flow
£6,271m
+47%



KPI
Normalised free cash flow[b]
£2,011m
(18)%



Net debt[c]
£17,969m



[a] Items presented as adjusted are stated before specific items. See page 204 for more information.
[b] After net interest paid and payment of lease liabilities, before pension deficit payments, (including the cash tax benefit of deficit payments) and specific items.
[c] Loans and other borrowings and lease liabilities (both current and non-current), less current asset investments and cash and cash equivalents, including items which have been classified as held for sale on the balance sheet. Currency denominated balances within net debt are translated to sterling at swapped rates where hedged. Fair value adjustments and accrued interest applied to reflect the effective interest method are removed. Please refer to note 26 for reconciliation from nearest IFRS measure.
[d] Movement includes impact of adopting IFRS 16 from 1 April 2019.

Group performance continued

	Outlook provided in July 2019[a]	Result	Performance in line with outlook
Change in adjusted[b] revenue	Down c.2%	down 2.7%	✘
Adjusted[c] EBITDA	£7.9bn - £8.0bn	£7.9bn	✔
Capital expenditure[d] (excluding BDUK clawback)	£3.7bn - £3.9bn	£3.9bn	✔
Normalised free cash flow[e]	£1.9bn - £2.1bn	£2.0bn	✔

[a] Outlook originally provided in May 2019 was updated in July 2019 for the effect of IFRS 16. The range of group adjusted[b] EBITDA was updated from £7.2bn - £7.3bn to £7.9bn - £8.0bn.
[b] Items presented as adjusted are stated before specific items. See page 204 for more information.
[c] Adjusted (being before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense), as explained in the Additional information on page 204.
[d] Additions to property, plant and equipment and intangible assets in the period.
[e] Free cash flow after net interest paid and payment of lease liabilities, before pension deficit payments (including the cash tax benefit of pension deficit payments) and specific items.

Alternative performance measures
We assess the performance of the group using various alternative performance measures. As these are not defined under IFRS they are termed 'non-GAAP' or 'alternative performance' measures. We reconcile these to the nearest prepared measure in line with IFRS on pages 204 to 206. The alternative performance measures we use may not be directly comparable with similarly-titled measures used by other companies.

IFRS 16
IFRS 16 'Leases' replaced IAS 17 'Leases' with effect from 1 April 2019. We present current year results on the new IFRS 16 basis but prior year comparatives on an IAS 17 basis. For this reason, certain measures may not be directly comparable. EBITDA has increased under IFRS 16 because operating lease expense has been replaced by interest expense and depreciation. See note 1 to the financial statements for further information.

Performance

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

Reported revenue was £22.9bn, down 2% and adjusted[b] revenue was £22.8bn, down 3%. This mainly reflects the impact of regulation, declines in legacy products, strategic reductions of low margin business and divestments. This was partially offset by growth in new products and services and higher rental bases of fibre-enabled products and Ethernet.

Reported profit before tax was £2.4bn, impacted by the higher upfront interest expense associated with IFRS 16 lease liabilities recognised on 1 April 2019.

Adjusted[c] EBITDA of £7.9bn was up 7%. This was mainly driven by the impact of IFRS 16. Excluding this, adjusted[c] EBITDA was down 3%, mainly driven by the fall in revenue, increased business rates, investments in customer experience and increased salary costs in Openreach to support FTTP rollout and better service, partially offset by savings from our ongoing transformation programme.

We have recognised £95m of Covid-19 impacts on various balance sheet items as a specific item. These primarily relate to an increase in our expected credit loss provisions against trade receivables and contract assets, mainly within our enterprise units.

Outlook for 2020/21

Given the uncertainty created by Covid-19 we will not be providing an outlook statement for 2020/21.

Covid-19 will have an impact on our business. The full impact on the group will depend on the duration of this unique crisis and how deeply it impacts the economy, with a range of potential outcomes too large to provide a meaningful quantification at this point.

This fiscal year and beyond we expect the primary trading impact in five areas:

- We are seeing lower revenue from our BT Sport propositions in Consumer, due to the impact of customer credits, pubs and clubs closures, and reduced advertising revenues. We will continue to offer bill credits while there isn't live sport.
- We expect an impact from sharply reduced business activity and rising insolvencies, specifically among the SME segment served by Enterprise and to a lesser extent Global.
- We are seeing an adverse impact on Openreach trading. While we anticipate lower churn, we expect significant reductions in the volume of broadband and Ethernet upgrades and provisioning, due to reduced business activity, including fewer new site builds, and restrictions on provisioning activity under current stay-at-home guidelines.
- Retail trading in Consumer and the volume end of Enterprise is being adversely impacted, with fewer sales and upgrades across fixed and mobile products, partly offset by lower churn. In addition, we are seeing lower mobile roaming volumes.
- We are seeing a reduction in spending and a more cautious approach from our multinational customers resulting in cancellations and delays to purchasing cycles, primarily impacting trading in Global.

Of these, we expect the vast majority of the financial impact will derive from lower revenue from the impacts on our BT Sport propositions, the SME segment and Openreach trading.

We will continue to evaluate the potential impacts as the situation develops further and hope to provide an outlook statement later in the year.

Dividend

To create capacity for BT's value-enhancing investment opportunities, including our strategic intent for an accelerated FTTP build and our extensive transformation and modernisation programme, coupled with the shorter term impact of Covid-19, the Board has decided that it is appropriate to suspend the final dividend for 2019/20 and all dividends for 2020/21. The Board expects to resume dividend payments in 2021/22 at 7.7 pence per share.

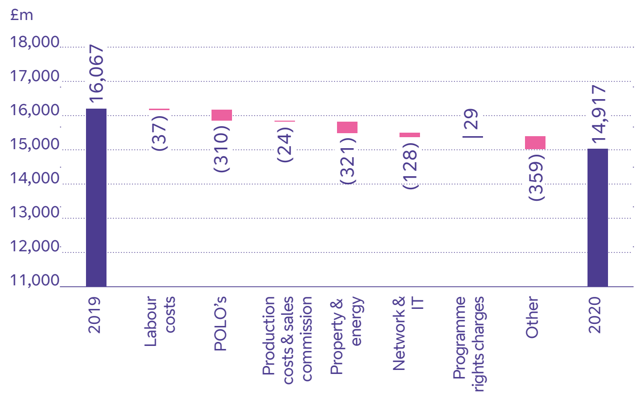
The Board expects to continue with a progressive dividend policy from this re-based level for future years. The Board continues to expect to declare two dividends per year with the interim dividend being fixed at 30% of the prior year's full year dividend. The Board believes that suspending and re-basing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

Simon Lowth
Chief Financial Officer
6 May 2020

Summarised income statement

Year ended 31 March	2020 (IFRS 16) £m	2019 (IAS 17) £m	2018 (IAS 17) £m
Revenue	22,905	23,428	23,723
Operating costs[a]	(15,348)	(16,461)	(16,828)
Depreciation and amortisation	(4,274)	(3,546)	(3,514)
Operating profit	**3,283**	**3,421**	**3,381**
Net finance expense	(897)	(756)	(764)
Share of post tax profit/(loss) of associates and ventures	(33)	1	(1)
Profit before tax	**2,353**	**2,666**	**2,616**
Tax	(619)	(507)	(584)
Profit for the period	**1,734**	**2,159**	**2,032**

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



Revenue
Reported revenue fell by 2% and adjusted[b] revenue fell by 3%. This was primarily due to the impact of regulation, declines in legacy products, strategic reductions of low margin business and divestments. This was partially offset by growth in new products and services and higher rental bases of fibre-enabled products and Ethernet.

You can find details of revenue by customer-facing unit on pages 49 and 50. Note 5 to the consolidated financial statements shows a full breakdown of revenue by all our major product and service categories.

Operating costs
Both reported and adjusted[b] operating costs were down 2%. This was mainly driven by savings from our ongoing transformation programmes, partially offset by increased business rates, investment in customer experience and increased salary costs in Openreach to support FTTP rollout and better service.

Our cost transformation programme announced in May 2018 is complete with an annual benefit of over £1,550m and an associated implementation cost of £670m. During the year there was a reduction of 5,000 roles, taking the total to 9,000 over the past 2 years.

The next phase of our transformation will focus on simplifying our product portfolio, simplifying and automating our customer journeys, moving to a modern, modular IT architecture, and migrating customers from our legacy networks to our modern FTTP and 5G networks. This will deliver annualised gross cost savings of £1bn per annum by the end of March 2023, realised in broadly equal annual increments, increasing to £2bn per annum by the end of March 2025. The savings will comprise reductions in both our total labour costs and spend with external suppliers. We expect around 80% of the savings will be realised in operating costs and the remainder in capital expenditure. We anticipate that the one-off cost to achieve these savings will be £1.3bn in total across the five years of the programme, of which £900m will be invested in the first three years, including around £400m this fiscal year.

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

Profit before tax
Reported profit before tax was £2,353m and adjusted[b] profit before tax was £2,860m. This was impacted by the higher upfront interest expense associated with IFRS 16 lease liabilities recognised on 1 April 2019.

Adjusted[c] EBITDA
Adjusted[c] EBITDA of £7,907m was up 7%. This was mainly driven by the impact of IFRS 16. Excluding this adjusted[c] EBITDA was down 3%, reflecting the revenue decline partly offset by the lower costs as described above. You can find details of adjusted[c] EBITDA by customer-facing unit on pages 49 and 50.

Specific items
As we explain on page 204, we separately identify and disclose those items that in management's judgement need to be disclosed by virtue of their size, nature or incidence. We call these specific items. Specific items are used to derive the adjusted results as presented in the consolidated income statement. Adjusted results are consistent with the way that financial performance is measured by management and assists in providing an additional analysis of the reported trading results of the group.

Specific items resulted in a net charge after tax of £590m (2018/19: £452m). The main components are restructuring costs of £322m (2018/19: £386m), divestment related items of £199m (2018/19: £5m), interest expense on pensions of £145m (2018/19: £139m), £95m one-offs resulting from Covid-19 (2018/19: £nil) and a tax charge on specific items of £83m (2018/19: credit of £112m).

These charges were offset by the gain on disposal of BT Centre of £115m (2018/19: £nil); release of regulatory provisions of £72m (2018/19: £27m charge); and payment of £87m including settlement interest of £5m from Ofcom relating to overpaid annual licence fees that were charged during the period 2015-2017.

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

[a] Excluding depreciation and amortisation.
[b] Items presented as adjusted are stated before specific items. See page 204 for more information.
[c] Adjusted (being before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense), as explained in the Additional information on page 204.

Group performance continued

Taxation

Our effective tax rate was 26.3% (2018/19: 19.0%) on reported profit and 18.7% (2018/19: 19.2%) on profit before specific items. We paid income taxes globally of £210m (2018/19: £431m).

We paid UK corporation tax of £147m (2018/19: £317m). We benefited £434m from tax deductions on employees' pension and share schemes (2018/19: £391m). We no longer benefit from EE's historical tax losses (2018/19: benefit of £90m).

Our tax expense recognised in the income statement before specific items was £536m (2018/19: £619m). We also recognised a £892m tax charge (2018/19: £343m tax credit) in the statement of comprehensive income, mainly relating to our pension scheme.

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

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

Earnings per share

Reported earnings per share was 17.5p, down 20%, while adjusted[a] earnings per share fell 11% to 23.5p.

Capital expenditure

In recent years we've prioritised capital expenditure to underpin our strategy of connecting customers to the UK's best network, expanding coverage and capacity, and making our fixed and mobile networks faster and more resilient.

Capital expenditure was £3,960m (2018/19: £3,963m). This includes grant funding deferral under the Building Digital UK (BDUK) programme. Excluding BDUK gainshare, capital expenditure was £3,943m (2018/19: £3,750m).

Network investment (excluding BDUK gainshare) was £2,053m[b], up 4%[b]. This reflects our continued investment in our fibre cities network build and the rollout of 5G. Other capital expenditure components were up 6%[b], with £972m[b] spent on customer-driven investments, £755m[b] on systems and IT, and £163m[b] on non-network infrastructure.

Capital expenditure contracted but not yet spent was £1,234m at 31 March 2020 (2018/19: £1,432m).

Normalised free cash flow

Year ended 31 March	**2020 £m**	2019 £m	2018 £m
Cash generated from operations	**6,481**	4,687	5,400
Tax paid	**(210)**	(431)	(473)
Net cash inflows from operating activities	**6,271**	**4,256**	**4,927**
Net purchase of property, plant and equipment and software	**(3,889)**	(3,637)	(3,341)
Free cash flow	**2,382**	**619**	**1,586**
Interest received	**30**	23	7
Interest paid	**(736)**	(531)	(555)
Add back pension deficit payments	**1,274**	2,024	872
Dividends from associates	**1**	-	-
Add back net cash flow from specific items	**112**	598	828
Add back net sale of non-current asset investments	**33**	1	19
Add back prepayments in Respect of acquisition of spectrum licence	**-**	-	325
Remove refund on acquisition of spectrum licence	**-**	(21)	-
Remove cash tax benefit of pension deficit payments	**(434)**	(273)	(109)
Payment of lease liabilities	**(651)**	-	-
Normalised free cash flow[c]	**2,011**	**2,440**	**2,973**

Cash flow

Net cash inflow from operating activities was up £2,015m from last year to £6,271m. This was mainly driven by £750m lower deficit contributions to the BT Pension Scheme in the current year and significant one-off cash flows. Normalised free cash flow[c] was £2,011m, down £429m. This was driven by increased cash capital expenditure, lower EBITDA, deposit payments for UEFA club football rights and increased interest payments, partially offset by one-off cash flows.

Free cash flow, which includes specific item outflows of £112m (2018/19: £598m) and a £434m (2018/19: £273m) tax benefit from pension deficit payments, was £2,382m (2018/19: £619m). We made pension deficit payments of £1,274m (2018/19: £2,024m) and paid dividends to our shareholders of £1,521m (2018/19: £1,504m).

Net cash cost of specific items was £112m (2018/19: net cash cost of £598m). This includes restructuring payments of £350m (2018/19: £372m) and regulatory payments of £39m (2018/19: £170m), offset by proceeds on disposal of BT Centre of £210m (2018/19: £nil) and receipt of annual licence fee refund from Ofcom of £87m (2018/19: £nil).

You can see a reconciliation to normalised free cash flow from net cash inflow from operating activities (the most directly comparable IFRS measure) on page 206.

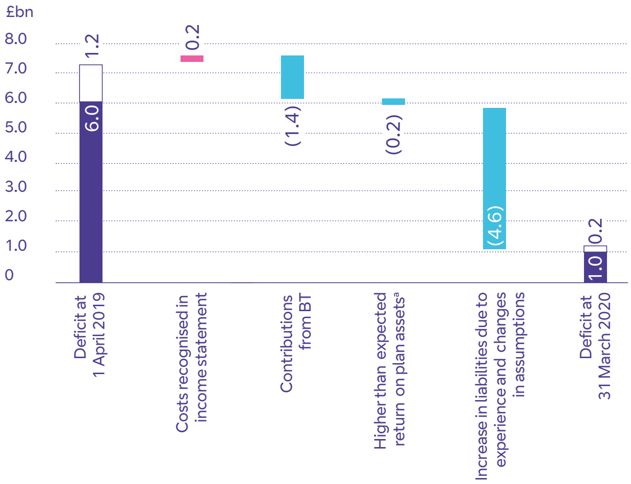
[a] Adjusted measures exclude specific items, as explained in the Additional information on page 204.
[b] Capital expenditure by spend type has been re-presented to reflect an improved mapping process.
[c] Free cash flow after net interest paid and payment of lease liabilities, before pension deficit payments (including the cash tax benefit of pension deficit payments) and specific items.

Summarised balance sheet

As at 31 March	2020 £m	2019 £m	2018 £m
Intangible assets	**13,889**	14,385	14,447
Property, plant and equipment	**18,474**	17,835	17,000
Right-of-use assets	**5,391**	-	-
Derivative financial instruments	**2,489**	1,592	1,509
Cash and cash equivalents	**1,549**	1,666	528
Investments	**5,112**	3,268	3,075
Trade and other receivables	**3,185**	3,667	4,331
Contract assets	**1,721**	1,602	-
Deferred tax assets	**300**	1,347	1,326
Other current and non-current assets	**957**	925	626
Total assets	**53,067**	**46,287**	**42,842**
Loans and other borrowings	**19,334**	16,876	14,275
Derivative financial instruments	**1,012**	940	837
Trade and other payables	**6,548**	7,269	8,494
Contract liabilities	**1,151**	1,425	-
Lease liabilities	**6,560**	-	-
Provisions	**719**	1,006	1,055
Retirement benefit obligations	**1,140**	7,182	6,847
Deferred tax liabilities	**1,608**	1,407	1,340
Other current and non-current liabilities	**232**	15	83
Total liabilities	**38,304**	**36,120**	**32,931**
Total equity	**14,763**	**10,167**	**9,911**

Pensions

The accounting deficit, net of tax, decreased during the year from £6.0bn to £1.0bn. This mainly reflects an increase in the real discount rate, deficit contributions paid over the period and positive asset returns. However, interest rates are extremely volatile in the current markets and we estimate our IAS 19 deficit will have materially worsened since 31 March principally reflecting the subsequent fall in capital spreads. The movements in the deficit for the group's defined benefit plans are shown below:



Key movements in IAS 19 deficit

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

Net debt[b]

Net debt[b] was £18.0bn at 31 March 2020, £6.9bn higher than at 31 March 2019 (£11.0bn), primarily reflecting lease liabilities recognised on transition to IFRS 16 on 1 April 2019. Excluding lease liabilities, net financial debt was £0.5bn higher than at 31 March 2019.

The increase in net financial debt was driven by £1.3bn of BT Pension Scheme contributions, £1.5bn dividend payments, £3.9bn net capital expenditure, £0.7bn payment of lease liabilities and £0.7bn net interest payments. These were partly offset by net cash inflow from operating activities (excluding pension contributions) of £7.5bn and net proceeds from disposals of subsidiaries, associates and joint ventures of £0.1bn.

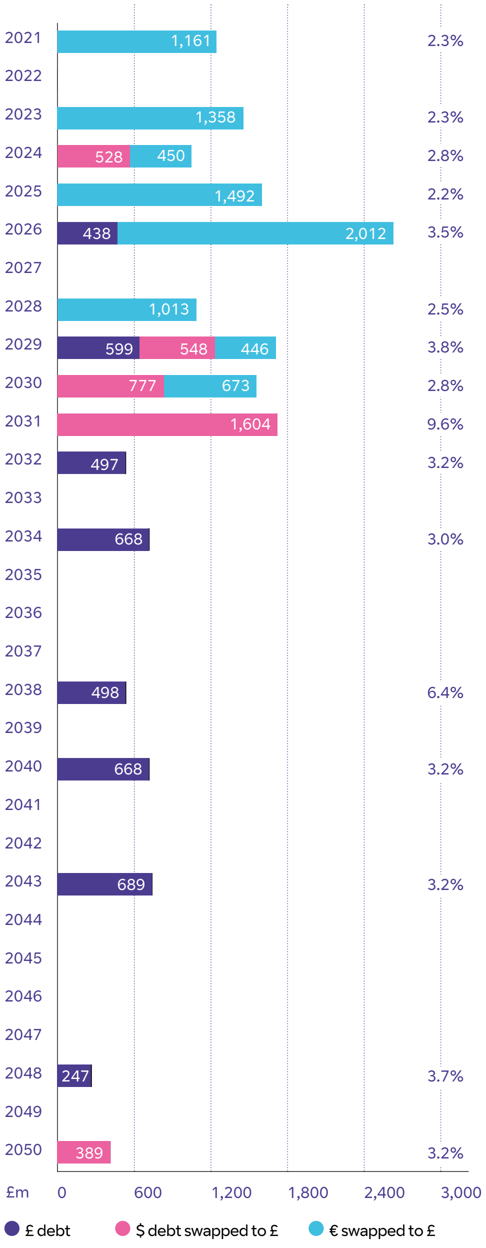
At 31 March 2020 the group held cash and current investment balances of £6.6bn. The current portion of loans and other borrowings of £2.8bn include term debt of £1.3bn repayable during 2020/21. We issued bonds in September 2019, November 2019 and February 2020 totalling £2.8bn, including a £0.4bn hybrid bond; and in June 2019 and March 2020 repaid bonds totalling £1.1bn.

Gross debt translated at swap rates and excluding fair value adjustments at 31 March 2020 was £24.6bn. This comprises term debt of £16.8bn lease liabilities of £6.6bn and other loans of £1.3bn.

[a] The actual investment return in the year to 31 March 2020 of around 2.9% was greater than our discount rate assumption at 31 March 2019 of 2.35%.
[b] Loans and other borrowings and lease liabilities (both current and non-current), less current asset investments and cash and cash equivalents, including items which have been classified as held for sale on the balance sheet. Currency denominated balances within net debt are translated to sterling at swapped rates where hedged. Fair value adjustments and accrued interest applied to reflect the effective interest method are removed. Please refer to note 26 for reconciliation from nearest IFRS measure.

Group performance continued

The graph below shows our debt maturity profile:



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

Contractual obligations and commitments

The table below shows our principal undiscounted contractual financial obligations and commitments at 31 March 2020.

As at 31 March	**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]	**18,028**	2,436	1,357	2,469	11,766
Lease commitments	**7,484**	799	1,545	1,388	3,752
Capital commitments	**1,234**	993	170	71	–
Other commitments	**228**	228	–	–	–
Programme rights commitments	**2,434**	880	1,148	406	–
Pension deficit obligations	**9,162**	946	1,863	1,816	4,537
Total	**38,570**	6,282	6,083	6,150	20,055

[a] Principal repayments at hedged rates.

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

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

Share buyback

We spent £86m (2018/19: £9m) on our share buyback programme. We received proceeds of £2m (2018/19: £5m) from people exercising their share options.

Our customer-facing units

Consumer

Adjusted[b] revenue
£10,388m
(2)%

Adjusted[b] operating profit
£1,148m
(12)%

Year ended 31 March	2020 (IFRS 16) £m	2019[a] (IAS 17) £m	Change £m	Change %
Adjusted[b] revenue	**10,388**	10,591	(203)	(2)
Adjusted[b] operating costs	**7,962**	8,260	(298)	(4)
Adjusted[c] EBITDA	**2,426**	**2,331**	**95**	**4**
Depreciation & amortisation	**1,278**	1,030	248	24
Adjusted[b] operating profit	**1,148**	**1,301**	**(153)**	**(12)**
Capital expenditure	**948**	944	4	–
Normalised free cash flow[d]	**1,065**	1,166	(101)	(9)

Revenue[b] declined due to known regulatory headwinds from international calling and mobile spend caps and a declining base of voice only customers. Revenue from TV and sport continued to grow.

EBITDA[c] was up 4% primarily driven by the impact of IFRS 16. Excluding this, EBITDA[c] was down 5% due to the impact of regulation, a declining base of voice only customers and investments in the fairness agenda. EBITDA[c] from TV and sport continued to grow during the year. EBITDA[c] in both years included certain one-off credits.

Going into the next financial year, we are seeing lower revenue from our BT Sport propositions, due to the impact of customer credits, pubs and clubs closures, and reduced advertising revenues. We will continue to offer bill credits while there isn't live sport. Retail trading is being adversely impacted with fewer sales and upgrades across fixed and mobile products, partly offset by lower churn. In addition, we are seeing lower mobile roaming volumes.

EBITDA[c] after specific items includes a £9m charge in relation to the expected impact of the Covid-19 outbreak on the recoverability of receivable balances held at 31 March 2020.

The movement in depreciation and amortisation was primarily due to the adoption of IFRS 16.

Capital expenditure was largely flat primarily due to lower core network investment. Normalised free cash flow[d] was down 9% mainly due to lower EBITDA.

Fixed churn has improved to 1.3% due to improvements to customer experience and our new annual CPI pricing strategy. Consumer broadband complaints have been reduced to below industry average for the first time. Mobile churn was 1.2%.

We continue to experience challenging market trends, with declines in traditional calls and lines where we have a relatively high market share, limited growth and pricing pressures in the broadband market and tough mobile competition.

Enterprise

Adjusted[b] revenue
£6,093m
(5)%

Adjusted[b] operating profit
£1,246m
+2%

Year ended 31 March	2020 (IFRS 16) £m	2019[a] (IAS 17) £m	Change £m	Change %
Adjusted[b] revenue	**6,093**	6,396	(303)	(5)
Adjusted[b] operating costs	**4,128**	4,486	(358)	(8)
Adjusted[c] EBITDA	**1,965**	**1,910**	**55**	**3**
Depreciation & amortisation	**719**	690	29	4
Adjusted[b] operating profit	**1,246**	**1,220**	**26**	**2**
Capital expenditure	**501**	551	(50)	(9)
Normalised free cash flow[d]	**1,397**	1,356	41	3

Revenue[b] decreased 5% in the year due to continued declines in traditional fixed voice usage, with total fixed voice revenue down £149m, and the impact of divestments. Excluding the impact of divestments, revenue[b] decreased 2%. These declines were partly offset by growth in wholesale mobile and WAN & Ethernet.

Operating costs[b] were down 8% in the year, due to the impact of IFRS 16 and lower labour costs from our restructuring programmes. EBITDA[c] increased 3%, however excluding the impact of IFRS 16 EBITDA[c] decreased 3%, with our lower cost base more than offset by the reduction in revenue. Excluding the impact of IFRS 16 and divestments, EBITDA[c] was down 1%.

In the next financial year we expect an impact from sharply reduced business activity and rising insolvencies, specifically among the SME segment. We are also seeing an adverse impact on mobile roaming volumes and fewer sales and upgrades across fixed and mobile products, partly offset by lower churn.

Depreciation and amortisation and operating profit movements primarily reflect the impact of IFRS 16.

Capital expenditure decreased 9% and normalised free cash flow[d] increased 3%, with the upfront cash payment of c.£100m received as part of our deal with Cellnex.

Despite the competitive market, we saw a strong order intake. The Wholesale order intake increased 15% to £1.2bn and the Retail order intake increased 23% to £3.6bn, helped by a major contract extension within the public sector.

[a] All prior year comparatives have been restated for the change in the allocation of group overhead costs and the transfer of the Emergency Services Network contract from Consumer to Enterprise. For more information please see note 1 to the financial statements on page 129.
[b] Adjusted measures exclude specific items, as explained in the Additional information on page 204.
[c] Adjusted (being before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense), as explained in the Additional information on page 204.
[d] Free cash flow after net interest paid and payment of lease liabilities, before pension deficit payments (including the cash tax benefit of pension deficit payments) and specific items as explained in the Additional information on page 206.

Group performance continued
Our customer-facing units continued

Global

Adjusted[b] revenue
£4,361m
(8)%

Adjusted[b] operating profit
£155m
+135%

Year ended 31 March	2020 (IFRS 16) £m	2019[a] (IAS 17) £m	Change £m	Change %
Adjusted[b] revenue	**4,361**	4,735	(374)	(8)
Adjusted[b] operating costs	**3,727**	4,291	(564)	(13)
Adjusted[c] EBITDA	**634**	**444**	**190**	**43**
Depreciation & amortisation	**479**	378	101	27
Adjusted[b] operating profit	**155**	**66**	**89**	**135**
Capital expenditure	**223**	245	(22)	(9)
Normalised free cash flow[d]	**255**	235	20	9

Revenue[b] for the year was down 8% reflecting our strategic decisions to reduce low margin business, divestments and legacy portfolio declines, partially offset by growth in Security and a £13m positive impact from foreign exchange movements.

EBITDA[c] was up 43%, primarily reflecting the impact of IFRS 16. Excluding IFRS 16 EBITDA[c] was up 5% as lower revenue was more than offset by a reduction in operating costs[b] reflecting ongoing transformation and certain one-offs.

Depreciation and amortisation and operating profit movements primarily reflect the impact of IFRS 16.

Capital expenditure was down 9% reflecting ongoing rationalisation and our strategy to become an asset light business. Normalised free cash flow[d] improved by £20m to an inflow of £255m, reflecting higher EBITDA[c] and lower capital expenditure offset by adverse working capital.

Order intake was £4.3bn, up 32% benefiting from a number of large renewals but also reflecting increased new business wins. We expect a slow down in order intake during 2020/21 due to a reduction in expected renewals, combined with the impact of Covid-19 on growth opportunities.

Covid-19 has not materially impacted our 2019/20 trading results, although additional loss provisions of around £35m were taken against trade receivables and contracts at 31 March 2020 primarily in relation to SME and regional enterprise customers where the insolvency risk is expected to be more pronounced. These provisions were recognised through specific items and are therefore not reflected in the above results which are on an adjusted basis.

Looking forward, we are seeing a reduction in spending and a more cautious approach from our multinational customers resulting in cancellations and delays to purchasing cycles impacting trading.

Openreach

Adjusted[b] revenue
£5,112m
+1%

Adjusted[b] operating profit
£1,146m
(15)%

Year ended 31 March	2020 (IFRS 16) £m	2019[a] (IAS 17) £m	Change £m	Change %
Adjusted[b] revenue	**5,112**	5,075	37	1
Adjusted[b] operating costs	**2,254**	2,331	(77)	(3)
Adjusted[c] EBITDA	**2,858**	**2,744**	**114**	**4**
Depreciation & amortisation	**1,712**	1,398	314	22
Adjusted[b] operating profit	**1,146**	**1,346**	**(200)**	**(15)**
Capital expenditure	**2,108**	2,081	27	1
Normalised free cash flow[d]	**670**	1,006	(336)	(33)

Revenue[b] growth was driven by higher rental bases in fibre-enabled products (driven by commercial offers), up 20%, and Ethernet, up 11%. This was partially offset by price reductions (both the impact of Openreach's commercial offer of fibre volume discounts, and regulated price reductions), and higher service level guarantee payments due to implementation of auto-compensation.

Operating costs[b] were down 3% driven by the impact of IFRS 16. Excluding this, operating costs[b] were up 5% primarily driven by higher business rates and higher salary costs as Openreach invested in more colleagues to support FTTP rollout and better service, and pay inflation. These drivers were partly offset by efficiency savings and certain one-off items. Excluding the impact of IFRS 16, EBITDA[c] was down 3% reflecting the above.

Depreciation and amortisation and operating profit movements primarily reflect the impact of IFRS 16.

Capital expenditure was up 1%, however excluding BDUK gainshare, it was up £223m, or 12%, driven by investments in the network (predominantly fibre enabled infrastructure) partially offset by efficiency savings. Normalised free cash flow[d] was down 33% due to higher cash capital expenditure and costs, and timing of working capital.

Looking forward, Openreach is seeing an adverse impact on trading as a result of Covid-19. While Openreach anticipate lower churn, significant reductions in the volume of broadband and ethernet upgrades and provisioning are expected, due to reduced business activity, including fewer new site builds, and restrictions on provisioning activity under current stay-at-home guidelines. Openreach is prioritising service and maintenance to support vulnerable customers.

[a] All prior year comparatives have been restated for the change in the allocation of group overhead costs and the transfer of the Emergency Services Network contract from Consumer to Enterprise. For more information please see note 1 to the financial statements on page 129.
[b] Adjusted measures exclude specific items, as explained in the Additional information on page 204.
[c] Adjusted (being before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense), as explained in the Additional information on page 204.
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A letter from the Chair of Openreach

The intense debate on connectivity in the UK showed no signs of abating this year. But while everyone knew the general election would be dominated by a 'B' word as people went to the polling booths, it was probably a surprise that it was 'broadband' rather than Brexit.

With all the major parties outlining huge ambitions for Britain's digital network, we were reminded again just how important Openreach and our engineers are to this country's future prosperity.

And it's a challenge we're relishing across our network.

Progress on service

Delivering better customer service will always be our number one priority.

Despite some periods of extremely challenging weather, we've cut fault volumes on our copper network by 3.4% and missed appointments are at 2%. That's helped us meet or beat all 42 of Ofcom's quality service levels on voice and broadband, including FTTC.

Meanwhile our ambitions and commitments on service improvements and extending network coverage haven't wavered. Our fibre broadband network is the largest in the UK – available to over 28m homes and businesses and 69% of all broadband lines are now fibre based.

Full fibre faster

We've continued building a strong, dependable and sustainable business for our shareholder, BT, our colleagues and our customers.

As part of that, we're leading the charge in helping the Government get gigabit capable broadband to every home and business by 2025.

We believe we can build full fibre faster than anyone else, and to a very high quality. We've already passed 2.6m homes and businesses and given current progress, we now plan to accelerate FTTP build to 4.5m premises passed by the end of March 2021.

As of today, we've included 110 UK locations in our 'Fibre First' towns, cities and boroughs programme, and we're now making full fibre available to more than 32,000 homes and businesses every week. That's one every 19 seconds.

We have made good progress in making Salisbury our first fully fibred city, making FTTP available to all premises we were able to access.

We know from the expert research we commissioned this year that full fibre broadband can be a massive platform for economic growth, social cohesion and positive environmental change.

The Centre for Economics & Business Research's (Cebr) report 'The Blueprint for a Full Fibre Future' showed how a nationwide full fibre network could boost UK productivity by up to £59bn in five years. It could also unlock job opportunities for people otherwise left behind.

Full fibre will also transform our public services; unleashing innovations behind better education, healthier, longer lives and more connected communities.

Over the next decade, having this world-class connectivity at home could help 400,000 more people avoid commuting. That means people launching new businesses or working from wherever they choose to live – reversing a hundred-year trend towards moving to big urban centres.

It also means 300m commuting trips could be saved each year, with 3bn fewer kilometres travelled by car.

One of the best big companies to work for

To drive forward our full fibre rollout, we've recruited and trained more than 3,000 engineers – reinforcing our position as one of the UK's leading private sector employer of apprentices.

We've also continued to be one of the biggest supporters of the country's Armed Forces veterans. And I'm delighted that our commitment to an amazing team of people has helped us become one of The Sunday Times 25 Best Big Companies to Work For, ranked at number 15.

Getting the right conditions

Subject to the resolution of a number of critical enablers we believe we can reach 20m premises with full fibre by the mid- to late-2020s.

Over the last year we've seen encouraging progress on the enablers we need from the UK Government and Ofcom for BT to invest at scale whilst delivering a fair shareholder return.

In January, Ofcom's Wholesale Fixed Telecoms Market Review was a step in the right direction on the regulatory framework required.

That commitment to rural communities is something we believe in strongly. Making sure funding for the final 10% is structured in the right way will be key to achieving the Government's ambition.

Today around a quarter of our full fibre footprint sits outside of cities and major urban conurbations. In January we set out plans to reach 250,000 homes and businesses in more than 200 villages, market towns and hard-to-reach areas.

The way forward – working together

We're working with communications providers to drive rapid full fibre take-up. This is a journey the whole industry needs to go on. We all have a part to play in getting the balance right between urban and rural areas.

Delivering full fibre as far and wide as possible should be a priority for the private and public sectors. It's very clear that businesses and government need to work well together over the coming years to achieve the bold ambitions we've set ourselves.

Our next goal is to reach 4.5m premises by end of March 2021. It's too early to know for certain what the impact of Covid-19 might be on this, but we are working hard to make sure we have plans in place to minimise the impact. In the meantime we will continue to diligently carry out work where it is possible to safely and responsibly do so.

We continue to lead the charge on the Government's 2025 ambition, and we are raring to deliver for our shareholder, our customers and the UK.

Mike McTighe
Chair, Openreach
6 May 2020

How we manage risk

Our global risk framework enables a consistent approach to how we identify, assess, manage and monitor the risks and uncertainties to the successful delivery of our strategic objectives.

How we identify our principal risks

The principal risks draw upon the priority risks recorded in each of the customer-facing units and corporate units and the ongoing input from our senior leaders and respective oversight committees. The principal risks are reviewed by the Group Risk Panel, a forum comprised of senior representation from across the business, before being approved by the *Executive Committee* and the Board.

Management and oversight of the principal risks

Each principal risk is assigned an *Executive Committee* owner who is responsible for monitoring the exposure and nature of the risk, deciding how it should be managed and taking the necessary action to achieve the desired target level.

Oversight of the individual principal risks is carried out via:

- **Detailed reviews** into each risk at *Executive Committee*, *Audit & Risk Committee* and Board meetings. Detailed reviews involve the *Executive Committee* owner providing an overview of the risk, relevant developments, how we are currently managing it and areas for improvement. There is also a summary of related assurance results that inform how effectively the risk is being managed.
- **Collective review** of the risks on a quarterly basis at the Group Risk Panel and every six months at the *Executive Committee* and annually by the Board.

Enhancing our risk framework

We are implementing a new framework to provide our leaders with increased confidence, comfort, knowledge and capability to manage the risks to the delivery of our strategy.

A key part of our new approach is focused on using metrics to enhance our articulation of risk appetite and clearly articulate the tolerance limits within which we wish to operate.

This clarity on the nature and extent of the risks we are willing to take to achieve our strategic objectives will refine the way we define policy, set our controls and carry out assurance over them.

Covid-19 impact

The Covid-19 pandemic is having, and will continue to have, an impact across our entire risk landscape. We have incorporated Covid-19 commentary into each principal risk and have included a separate Covid-19 risk which gives an overview of the related uncertainties, potential impacts on the group and our responses.

Key

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

- ^ Increasing/worsening
- v Lessening/improving
- – At a similar level

Link to business model

- F Financial strength
- P Colleagues
- C Customers
- N Networks and physical assets
- B Our brands
- R Retail footprint
- I Innovation
- S Suppliers and partners

Link to strategy

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

Link to 2020/21 KPIs

1. Brand NPS
2. Total Openreach FTTP connections
3. Total 5G connections
4. % reduction in CO_2 emissions intensity
5. Cumulative number of people reached to help improve their digital skills
6. Reported revenue
7. Adjusted EBITDA
8. Normalised free cash flow
9. Organic EBITDA margin
10. Reported capital expenditure
11. Organic ROCE

Our principal risks and uncertainties

Covid-19 pandemic

Movement NEW

- Covid-19 is impacting our colleagues, operations, suppliers and customers, with the extent dependent on factors including, but not limited to, length of UK and international lockdowns, levels of employee absence, virus recurrence, insolvency rates, unemployment levels, nature and extent of any government interventions, severity of economic effects and the speed and nature of the recovery.

Link to business model

F P C N B R I S

Link to strategy

1 2 3

Link to KPIs

1 2 3 5 6 7 8 11

How this could impact our strategy or business model

- Adverse impacts on sales activity and demand, including reduced roaming and continued suspension of sport; impacts are likely to be partially offset by reduced churn and increasing use of connectivity products.
- Disruption to our ability to deliver products and services to customers in the event of supply shortages and/or widespread loss of key employee resource, with adverse impacts on customer volumes and experience.
- Prolonged economic downturn could materially increase our pension deficit and associated contributions.
- Material bad debts if a significant number of our SME and large corporate customers experience financial distress or insolvency.
- Adverse impacts on our cash position and ability to fund investment projects and ongoing operations.

Examples of how we manage this risk

- An *Executive Committee* Command group meet regularly to identify emerging exposures and review our ability to manage them, defining and agreeing actions as required. The group is supported by an operational working group, and equivalent command groups in each customer-facing and corporate unit.
- Introduction of various measures to protect the health and safety of our colleagues, ensuring continuity of critical services, and our customers; measures are continually evaluated and adjusted to reflect World Health Organisation, Public Health England, European Centre for Disease Prevention and Control and UK Government guidelines.
- Response planning to manage any prolonged unavailability of key resources in our network and field engineering teams, maintaining existing network resilience levels.
- Close dialogue with our critical suppliers, with sufficient inventories held to deal with anticipated scenarios.
- Provision of flexible arrangements to vulnerable households and businesses that are at risk of harm and/or financial distress to ensure they remain connected.

Focus areas for 2020/21

- Continued modelling of Covid-19 scenarios to identify and evaluate financial impacts, with an assessment of potential liquidity mitigation options.
- Conduct risk assessments for each customer-facing unit to identify potential strategic, operational, regulatory and colleague related exposures.
- Define 2020/21 assurance activities.
- Review our Covid-19 response for 'lessons learned', implementing identified opportunities to strengthen our crisis management capability.

Our principal risks and uncertainties continued

Strategic risks

Competition

Movement

- Failure to respond effectively to intensifying competition and technology developments, and develop product propositions in line with changing market dynamics and expectations.
- Potential challenges include emergence of competitors enabled by disruptive technologies, reduced market differentiation, unanticipated changes in market structures and boundaries (M&A), government restrictions on vendor choices and changes in regulation or customer behaviours.

Link to business model

F N B

Link to strategy

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Link to KPIs

1 2 3 6 7 8 9 11

How this could impact our strategy or business model

- Reduction in our market share, revenue and/or profit could impact our ability to invest in growing and increasing the value of the business.
- Significant economic decline in specific industries could impact the group's ability to continue to attract and retain customers in that industry (e.g. retail).
- New technology developments could lead to accelerated shifts that affect our current propositions, an increase in investment requirements and/or a deterioration in our competitive position.

Examples of how we manage this risk

- Delivering a differentiated customer experience.
- Focusing on relevant product development.
- Investing in securing network leadership.
- Expanding into adjacent or new markets in pursuit of revenue and profit growth.
- Phasing out legacy services and technologies.
- Monitoring technology developments and competitor activity.

Focus areas for 2020/21

- Deliver on key programmes that enhance customer experience, network leadership and transformation.
- Ensure that we are meeting the KPIs that underpin our strategy.
- Identify and focus on the right type and mix of products.

Political risk

Movement

- Perceived issues in deployment and connectivity of broadband and mobile coverage could escalate into larger political campaigns and regulatory intervention.
- Failure to manage Covid-19 related challenges around network resilience, colleague and customer support, and data sharing (e.g. government data requests) could create political pressure on the company.

Link to business model

F C N

Link to strategy

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Link to KPIs

2 3 4 8

How this could impact our strategy or business model

- Potential to undermine future strategy and investor confidence.
- Our USO and SRN commitments, and wider ambitions around network rollout, may be impacted by a prolonged Covid-19 lockdown and associated civil engineering restrictions beyond our control; the current impact is too early to determine, but may be mitigated by any relaxation of delivery expectations by Government and/or Ofcom.

Examples of how we manage this risk

- Building partnerships with the Government to address key priorities, (e.g. full fibre investment, USO, SRN, supply chain security, online regulation and consumer fairness).
- Working with business organisations including CBI, techUK and Chatham House to ensure alignment on key industry issues that matter to BT (e.g. post-Brexit policy positions).
- Proactive approach with representatives from across the political spectrum on areas such as climate change, smart cities and innovation.
- Close, regular, direct involvement with all relevant strands of the Government response to Covid-19 to provide the necessary support to Government, colleagues and customers.

Focus areas for 2020/21

- Fulfil USO and SRN commitments, providing greater connectivity to underserved parts of the UK.
- Continued dialogue with government and other industry players on protecting consumers online ensuring any interventions are fair and proportionate.
- Further assess the practical and logistical impact of the Covid-19 related lockdown on our network and coverage commitments to Government and Ofcom , including impact on pushing for FTTP fibre enablers.

Communications industry regulation

Movement

- Failure to comply with existing regulations and/or material regulatory change could impact the way we operate and compete in terms of our pricing, the standards we must meet and the services we provide.

Link to business model

F C N

Link to strategy

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Link to KPIs

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How this could impact our strategy or business model

- A lack of supportive or disruptive regulation would impact our ability to invest at pace and scale in ultrafast networks and converged connectivity, and the flexibility to innovate whilst doing so.
- An inflexible approach to regulation during the Covid-19 pandemic could stretch the delivery capability of our colleagues at a time when they're focused on maintaining critical services and meeting customers' needs.

Examples of how we manage this risk

- Encouraging clear, predictable and proportionate regulation.
- Building stakeholder trust through consistent, collaborative and straightforward engagement.
- Anticipating and embedding new regulatory rules and fostering a compliance culture.
- Enhancing organisational agility to respond to fast-changing competitive and regulatory environment.
- Continued focus on our Fairness Commitments, with regular Covid-19 stakeholder briefings.

Focus areas for 2020/21

- Engage with Ofcom on sector competitive dynamics, regulatory implications and deadline expectations.
- Support pro-investment changes to the regulatory framework for fixed access regulation for 2021-26.
- Support a clear customer migration strategy for the 2025 PSTN closure.
- Assess any substantive updates to Ofcom's 2020/21 annual plan and review our regulatory priorities accordingly.
- Work with Ofcom as its Customer Fairness Framework evolves to ensure any interventions are proportionate and enhance the customer experience, prioritising support to customers during the Covid-19 pandemic.
- Develop our position, accounting for Covid-19 delays, on the future regulatory model for digital platforms.
- Assess Covid-19 impacts on the format and/or timescale of the upcoming spectrum auction.

Our principal risks and uncertainties continued

Operational risks

Cyber security

Movement

- Cyber security risks could arise from colleagues inside BT or from external sources, with any failure to effectively manage these exposures presenting a material threat to our reputation as a leader in cyber security.
- External adversaries, including hacktivists, criminals, terrorists and/or nation states, could attempt to disrupt service availability through the use of hacking tools, phishing scams and disruptive malware.
- Covid-19 related work from home requirements could introduce additional security vulnerabilities, with any sickness-related absence of key employees potentially impacting our ability to defend against cyber attacks.

Link to business model

F P C N B

Link to strategy

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Link to KPIs

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How this could impact our strategy or business model

- Potential financial loss, long-term reputational damage, loss of market share, contract terminations, regulatory sanctions and fines.
- A cyber attack could disrupt our business or lead to data being compromised at a time when communications are vital to the global response to Covid-19.

Examples of how we manage this risk

- Adopting an intelligence-led, risk-based response to cyber threats, underpinned by robust business continuity plans that mitigate the absence of key employees (e.g. geographically dispersed operations).
- Liaising with governments and other companies on emerging cyber threats.
- Monitoring and logging our networks and systems to rapidly detect and respond to threats to service availability.
- Testing our defences using our own ethical hacking teams and externally conducted assessments to identify and remediate vulnerabilities.
- Raising security awareness and promoting good security hygiene among our colleagues through campaigns, training and phishing tests.

Focus areas for 2020/21

- Sharing intelligence and keeping pace with evolving threats.
- Continued investment in our defences.
- Maintaining cyber hygiene.
- Protecting BT and its customers in responding to the pandemic.

Supply chain

Movement

- A failure in the supplier selection and/or in-life management process.
- Restrictions in our ability to engage with perceived high-risk vendors following the UK Government's Telecoms Supply Chain Review.
- Disruptions to supply continuity where suppliers are materially impacted by Covid-19.

Link to business model

F B S

Link to strategy

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Link to KPIs

7 8 9 10 11

How this could impact our strategy or business model

- Selecting the wrong supplier for our requirements and/or over-dependence on certain suppliers could result in poor commercial terms, with a detrimental impact on our strategic, market and competitive position.
- Failing to effectively manage suppliers and sub-suppliers could result in business disruption, regulatory fines and/or brand damage, through, for example, the failure of suppliers to meet key regulatory obligations such as General Data Protection Regulation (GDPR) or human rights.

Examples of how we manage this risk

- Clear definition of our operational and business requirements, against which suppliers are assessed.
- Due diligence checks at selection for all third parties, covering adverse media, financial health and bribery and corruption, along with other compliance checks tailored to the goods/services being procured.
- Regular in-life supplier due-diligence, heightened in response to Covid-19, and monitoring of operational performance and compliance across key risks areas (e.g. information security, data privacy, anti-bribery and corruption, human rights, health and safety, business continuity, financial insolvency and location).
- Providing commercial flexibility to suppliers impacted by Covid-19 (e.g. relaxation service level agreements and accelerated payments) and establishing alternative sources of supply in key areas to promote supply continuity.

Focus areas for 2020/21

- Launching a new digital source to contract platform to deliver global standardisation in our supplier selection process.
- Assessing digital capabilities that will enhance our in-life risk management capability.
- Developing responses to external factors that could generate significant supply chain risk including GDPR non-compliance, Brexit, Huawei ban, cyber security risk and, more recently, Covid-19.

Change management

Movement ^

- We are moving into the next phase of our transformation programme that will transform our customers' and colleagues' experience through the simplification of our products, processes, IT systems and networks.
- Our next phase of transformation requires a new set of capabilities and enablers; in order to stay competitive we must redefine our approach to change management to focus on removing obstacles to improve BT's efficiency and productivity.
- We are currently managing the operational impacts Covid-19 is having on our transformation (e.g. resource availability, remote working).

Link to business model

F P C

Link to strategy

1 2 3

Link to KPIs

1 7 8 9 10 11

How this could impact our strategy or business model

- Failure to realise the benefits of our transformation and manage the impacts of Covid-19 could negatively impact customer experience and our operational efficiency, as well as our ability to make future investments.
- Covid-19 is delaying our ability in some parts of the business to immediately realise the benefits of transformation.

Examples of how we manage this risk

- Establishing a clear transformation management structure, underpinned by agile delivery principles, which assigns ownership for major transformation activities with the senior leaders of the business.
- Monitoring performance in each of the operational areas of our plan using measures to ensure we deliver true business transformation.
- Leveraging the use of collaboration tools to maintain our ability to work effectively, despite Covid-19 related restrictions on the colocation of our colleagues.

Focus areas for 2020/21

- Developing and implementing the transformation delivery governance model, implementing programme management tools and continuing to develop the skills of our colleagues.
- Tracking progress of the financial and non-financial measures of the transformation.
- Continue to drive to identify and implement more transformation initiatives across the business.

Major contracts

Movement ^

- Failure to successfully manage our large, complex and high-value national and multinational customer contracts (including the Emergency Services Network and the Building Digital UK programme) and deliver the anticipated benefits.
- Covid-19 related challenges, including employee absenteeism, supplier disruption, and changing customer demands, could impact our ability to deliver on all aspects of our major contracts.

Link to business model

F C B

Link to strategy

1 2 3

Link to KPIs

1 6 7 8 9 11

How this could impact our strategy or business model

- Failure to meet our contractual commitments and/or respond to changing customer needs, budgets or strategy could adversely impact expected future revenue, profitability and cash generation.
- Our brand and reputation may be damaged by service failures, particularly those associated with critical infrastructure contracts and security and data protection services.
- Covid-19 could inhibit our ability to meet our contracted delivery timescales and service levels. Additionally, profits could be impacted where customers experience shrinkage, consolidation and/or financial failure.

Examples of how we manage this risk

- Governance, assurance, risk management and reporting processes against a clearly defined framework to manage out risk in-life.
- Assurance review activity over individual contracts by an independent review team.

Focus areas for 2020/21

- Developing skills across contract management teams to better identify and manage risk.
- Adopt a clear approach to understanding Covid-19 impacts on contracts and implement effective strategies to manage and recover them.
- Utilisation of enhanced contract management tools to further support frontline contract managers.
- Deploying artificial intelligence capability to enhance analysis of contractual risks and obligations.

Our principal risks and uncertainties continued

Customer experience

Movement

- Failure to transform the customer experience so that it is brand enhancing and drives sustainable profitable revenue growth.

Link to business model

F P C N B

Link to strategy

1 2 3

Link to KPIs

1

How this could impact our strategy or business model

- Any failure to transform could adversely impact our brand value, employee pride and advocacy, customer retention, group revenues, and/or regulatory compliance and associated financial penalties.

Examples of how we manage this risk

- Closely tracking a range of customer experience metrics to drive improvement and maintain high performing areas.
- Launching innovative propositions (e.g. BT Halo and answering all BT consumer calls in the UK).
- Investing in our network, including programmes which aim to increase network resilience through proactive maintenance and weather-proofing.
- Focus on maintaining customer experience during the Covid-19 pandemic through:
  - employee redeployment, as required, to support service levels for critical services;
  - comprehensive planning to underpin network and IT availability, and broadband performance; and
  - prioritising and supporting vulnerable and distressed customers and critical industries, with changes to product packages and payment plans.

Focus areas for 2020/21

- Rapid rollout of FTTP and 5G networks.
- Continued development and launch of innovative product and service propositions.
- Migrating homes and businesses to superfast broadband at no extra cost to them.
- Maintaining network performance and customer experience during the Covid-19 pandemic.

Service interruption

Movement

- Any major or repeated failure to maintain the continuity of end-to-end customer services (e.g. network connectivity and performance, and IT systems and service platforms).
- A failure could be caused by natural perils, pandemics, network and system faults, malicious acts, supply chain failure, and software or infrastructure outages.

Link to business model

F C N B

Link to strategy

1 2

Link to KPIs

1 6 7 8 9 11

How this could impact our strategy or business model

- Regulatory breaches, financial penalties, reduced productivity and potential harm to individuals.
- Damage to reputation, especially during the Covid-19 outbreak when the country is so reliant on our connectivity, and our ability to retain and grow our customer base.

Examples of how we manage this risk

- Close monitoring of our IT, fixed and mobile network performance and maintaining controls for incident, change and problem management.
- Implementation of lessons-learned from our continual war-gaming and analysis of real incidents.
- Weather resilience improvement programmes for our key network assets (e.g. flood, lightning, wind, heat).
- Mobile, geographically dispersed Emergency Response Teams to mitigate incident impacts.

Focus areas for 2020/21

- Improved change management processes through strengthening our testing capability and driving greater accountability across third-party changes.
- Initiation of projects aimed at mitigating the longer-term risk to our estate posed by climate change and associated extreme weather events.
- Planning to manage near and longer-term service risks related to a transition from the pandemic lockdown back to a normal trading model.
- Heightened monitoring and service protection measures across all services and platforms in response to Covid-19, with increased call capacity between mobile and fixed lines to handle increased demand.

Colleague engagement

Movement

- Negative reaction to change or poor consultation adversely impacts colleague engagement and subsequent ability to achieve our strategic objectives.
- Covid-19 and associated lockdown reduces employee availability and our ability to operate effectively.

Link to business model

F P C B

Link to strategy

1 3

Link to KPIs

2 3 6 7 8 9

How this could impact our strategy or business model

- Loss of talent and skills could impact our recruitment costs and ability to deliver our strategic objectives.
- Poor engagement could slow our change agenda, and/or lead to industrial unrest and action.
- Reduced employee attendance, engagement, and discretionary effort, with subsequent impact on customer experience, in the event we fail to support employee needs during the Covid-19 pandemic.

Examples of how we manage this risk

- Our *Colleague Board* with representation from across our business, gives colleagues a louder voice.
- Streamlining management structures to move decision making and colleague engagement closer to the front line.
- Close engagement and consultation with the recognised trade unions and impacted employees to deliver our market aligned, streamlined organisation structure – the People Framework.
- Comprehensive employee engagement programme to deliver the retraining, reskilling, redeployment and redundancy plans underpinning our transformation agenda.
- Enabling our colleagues to work from home where possible and highlighting guidance and support mechanisms available to them.
- Deployed policies, aligned to Government, Public Health England and medical advice, that support and protect employees delivering critical national services and those unable to work during the Covid-19 pandemic.

Focus areas for 2020/21

- Robustness of our business continuity plans to enable rapid adaption to changing circumstances.
- Continued extensive communication with our colleagues and taking of steps to safeguard their wellbeing.
- Investment in direct employee engagement and our *Colleague Board*, alongside our formal employee representative structures.

Financial risks

Pension scheme

Movement

- Our defined benefit pension schemes, in particular the BT Pension Scheme (BTPS), could become more of a financial burden as a result of future low investment returns, changes in inflation expectations, longer life expectancies, a more prudent approach being taken (e.g. if BT's financial strength is viewed as having worsened) and/or regulatory changes.
- The risk has increased due to the forthcoming review of contributions for the BTPS as at 30 June 2020 and recent market movements following the Covid-19 outbreak.

Link to business model

F I

Link to strategy

3

Link to KPIs

N/A

How this could impact our strategy or business model

- Additional cash contributions to the BTPS could reduce our ability to invest in our business and/or pay dividends.
- A rise in the BTPS deficit could negatively affect our share price and/or credit rating making it harder and more expensive to access funding.

Examples of how we manage this risk

- Regularly reviewing the BTPS's funding position and investment performance.
- Agreeing an investment strategy with the BTPS Trustee, which reduces investment risk over time, including hedging of the exposure to changes in interest rates, inflation and life expectancy.

Focus areas for 2020/21

- Agree the next triennial valuation of the BTPS, as at June 2020, which will set the contributions we need to make for the next three years.
- Review and prepare response to relevant consultations, including those relating to RPI reform and the funding regime for defined benefit pension schemes, to support the Pensions Regulator's aim of being clearer, quicker and tougher.

Our principal risks and uncertainties continued

Financial risk

Movement ^

- Exposure to funding and liquidity risks, including those arising from our underlying business operations, and also to financial risks such as interest rate, foreign exchange and counterparty risks.
- Any failure to properly anticipate future tax changes and/or comply with the tax rules of the countries in which we operate.

Link to business model

F I

Link to strategy

3

Link to KPIs

6 7 8 9 10 11

How this could impact our strategy or business model

- Interest and foreign exchange rate movements could negatively affect our profitability, cash flow and balance sheets (see note 28 to the consolidated financial statements).
- Counterparty risks could negatively impact our liquidity and profitability.
- Tax risks could expose us to poor business decisions (e.g. under-pricing contract bids), financial penalties and reputational damage.
- Funding and liquidity risks could impact our viability and ability to continue as a going concern, including a downturn in our business operations for unexpected factors, e.g. Covid-19.

Examples of how we manage this risk

- The Board has set a long-term credit rating target of BBB+/Baa1, with a BBB floor, and approves an annual five-year funding plan that identifies liquidity and funding requirements.
- Management of our liquidity and funding requirements and financial risks through a centralised treasury function, which is required to maintain minimum amounts of committed stand-by liquidity and pre-funding debt maturities up to 18 months in advance.
- Tax risks are managed through our Tax Control Framework.
- Enhanced counterparty credit risk management procedures in response to Covid-19.

Focus areas for 2020/21

- Taking action, as required, to maintain our current credit rating at BBB.
- Monitoring the development of the OECD's proposals to update international tax rules to deal with the digitalisation of economies.
- Managing any increased volatility in foreign exchange and counterparty risks associated with the expected end of the transitional Brexit period and Covid-19.
- Maintain sufficient funding and liquidity for our updated annual business plans, especially in light of Covid-19 related uncertainty.

Compliance risks

Health, safety & wellbeing

Movement ^

- Any failure to look after the health, safety and wellbeing of our colleagues and/or members of the public, especially in light of Covid-19 related exposures, with potential breaches of health and safety laws and regulations.

Link to business model

F P C N B

Link to strategy

2

Link to KPIs

N/A

How this could impact our strategy or business model

- Potential injury of our colleagues and/or members of the public, financial penalties, disruption to our operations, and associated reputational damage.

Examples of how we manage this risk

Our goal is to achieve zero incidents of avoidable harm and to enable leading performance in standards of health, safety and wellbeing for our colleagues, achieved by:

- training all of our colleagues in basic health, safety and wellbeing;
- monitoring the health, safety and wellbeing of our colleagues through survey and focus groups, supported by a dedicated Your Wellbeing portal and a mental health awareness training programme for line managers;
- monitoring performance levels across our operations using a global incident reporting system; and
- risk-based oversight of supplier compliance with BT minimum safety standards.

Focus areas for 2020/21

- Rollout of our fall-arrest harness training programme.
- Continue to assess public perceptions on the UK-wide 5G rollout and ensure compliance with European and industry guidance.
- Strengthening our assurance and oversight functions.
- Monitoring potential Covid-19 impacts on our colleagues, and complying with global and government public health guidance, assessments and measures; this also informs our business continuity planning activity.

Significant control failure

Movement –

- Any failure of our financial controls to prevent and/or detect fraud, financial misstatement or other financial loss.

Link to business model

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Link to strategy

2 3

Link to KPIs

7 8 9 11

How this could impact our strategy or business model

- Failures in our financial control framework could result in financial misstatement, financial loss including a failure to prevent fraud, or key decisions being taken based on incorrect information.

Examples of how we manage this risk

- Implementation of a financial controls framework with appropriate policies, processes, checks and balances – including quarterly certifications over key controls by senior leaders.
- Training of our colleagues on financial controls assurance and fraud awareness and implementing best practice, awareness and understanding of controls.
- Carrying out effective first, second and third-line assurance activities.
- While not complete, management have made good progress in remediating the matters we concluded to be material weaknesses (as defined by the Sarbanes Oxley Act) in the prior year, in relation to IT general controls and risk assessment.

Focus areas for 2020/21

- Continue our control enhancement programme, in particular an ongoing focus on the remediation of the material weaknesses in IT general controls and risk assessment.
- Ongoing implementation of technology enablers, including SAP Governance Risk and Compliance (GRC) module and expanding our use of data analytic procedures.

Privacy and data protection

Movement –

- Breach of data privacy laws through misuse of, or failure to secure and protect, customer and employee data.
- Potential additional Covid-19 related security risks in relation to increased working from home arrangements.

Link to business model

F P C B S

Link to strategy

2

Link to KPIs

2 3 6 7 9

How this could impact our strategy or business model

- Regulatory enforcement action that could result in an order to cease data processing, significant fines, class-action legal suits and/or prison sentences. Other impacts may include material reputational damage, disruption of business operations and increased customer churn.

Examples of how we manage this risk

- Review of activity across the business that utilises personal data to ensure compliance with our data policies.
- Provision of data handling training and tools to help our colleagues make better, risk-based decisions in their day-to-day activities.
- Due diligence activity over third parties' data-handling and security arrangements.
- Agree of Binding Corporate Rules with the UK data regulator to guide and support our business operations.
- Implement Brexit contingency planning to maintain required data flows.
- Additional privacy impact assessments undertaken and security measures implemented to mitigate against potential risk associated with high volumes of colleagues working from home.

Focus areas for 2020/21

- Continued development of our operating model to ensure regulatory requirements and compliance expectations are consistently and appropriately ascertained, communicated and monitored across our business.
- Evaluating and enhancing systems related to our evolving data processing operations.
- Developing new and targeted employee training and engagement.
- Further enhancing the clarity and consistency of our data governance and assurance programmes.

Our principal risks and uncertainties continued

Ethical culture

Movement

- The prevailing culture in BT leads to a failure to promptly recognise and report wrongdoing by our colleagues and/or those working on our behalf, which could include a breach of our internal policies and procedures, and/or applicable laws (e.g. anti-bribery and corruption, trade sanctions and human rights).

Link to business model

F P C B S

Link to strategy

1 2 3

Link to KPIs

N/A

How this could impact our strategy or business model

- Unethical or inappropriate behaviour could result in fraud or a breach of regulation or legislation , exposing BT to significant penalties, criminal prosecution, reputational damage and/or loss of customers and revenue.

Examples of how we manage this risk

- Setting appropriate policies and monitoring their implementation and compliance through assurance reviews, data analytics and our integrity risk dashboard.
- Employee awareness communication and training.
- Due diligence over business changes and suppliers and monitoring key metrics.
- Operation of a confidential SpeakUp channel, which anyone can use to call out wrongdoings.

Focus areas for 2020/21

- Continued focus on our due-diligence, monitoring and review activities on higher risk areas and third parties, (e.g. agents, resellers, distributors, joint ventures and subsidiaries).
- A new and targeted approach to senior manager training and engagement on ethics and compliance.
- Implementing our one BT Integrity and Compliance programme to enhance the clarity, consistency and governance around how we set and govern policy, and ensure our organisational culture is ‘fit for purpose’ everywhere that we operate.

Emerging risks

We face a number of uncertainties that have the potential to be materially significant to our long-term strategy but cannot be fully defined as a specific risk at present, and therefore cannot be fully assessed or managed. These emerging risks typically have a long time horizon, such as climate change, certain new technologies and long-term geopolitical trends.

Our enhanced risk management framework places greater emphasis on the identification of emerging risks, so that we can pro-actively monitor them and ensure they inform our strategic planning and resilience activities.

A focus on climate change:
The physical impacts of climate change and the actions taken by governments and society to try and limit global warming to well below 2°C by 2100 may impact our assets in the UK and globally, as well as our ability to source raw materials. As our customers seek to reduce their own emissions, demand for our propositions and services may also change.

We have conducted an analysis of the potential future climate-related impacts on BT; the main threats and opportunities identified are as follows:

Physical impacts:
- the impacts of extreme weather events, in particular of flooding and chronic increases in temperature, on our suppliers, operational assets and vehicle fleet.

Policy decisions and low carbon transition risks:
- potential carbon price increasing the operating cost of our assets
- potential policy changes that impact our ability to use our existing vehicle fleet
- increased costs of sourcing renewable energy due to changes in demand
- potential policy changes around end-of-life obligations and rights to repair relevant to our propositions.

Opportunities:
- the potential to recover and reuse infrastructure and product materials which can contribute to a low carbon, circular economy
- increasing demand for our propositions to support customers to move to a net zero society.

In response, we have pledged to become a net zero carbon emissions business by 2045. We plan to meet this target through the purchase of 100% renewable electricity, converting our vehicle fleet to ultra-low emissions vehicles and to continue to decarbonise our buildings. We are also considering our global response to physical climate impacts, building on work in the UK to implement flood defences and minimise service disruption.

See Digital impact and sustainability on page 36 for further information on our response to climate change.

Viability statement

In accordance with the Code, the Directors have assessed the prospects and viability of the group.

The assessment has been based on the company's strategy, balance sheet and financing position, including our £2.1bn undrawn committed borrowing facility which matures in March 2025, and the potential impact of Our principal risks and uncertainties including the impact of Covid-19. The Board has chosen to conduct its review for a period of three years to 31 March 2022. The Board believes this is an appropriate timeframe as it aligns with the primary focus of our business planning, the underpinning time cycles of a number of our principal risks: for example the pension scheme funding valuation and Ofcom's current market review cycles as well as significant business factors such as the interval between significant sports rights auctions. Our business and financial planning also takes into account our longer-term obligations, including the funding of our defined benefit pension schemes.

The assessment of viability is based on our medium term plan which forecasts the group's profitability, cash flows and funding requirements, and is approved by the Board at the end of each year. This timing allowed for the inclusion of an impact of the Covid-19 pandemic. The medium term plan is built from bottom-up forecasts of each of our customer-facing units, supplemented by items managed at a group level and assumptions such as macro-economic activity and exchange rates. The performance of the group and our customer-facing units against these forecasts is monitored monthly and this is supplemented each quarter through a series of Quarterly Business Reviews of each customer-facing and corporate unit conducted by the chief executive and chief financial officer.

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

In support of our viability statement we've stress tested our forecast cash flows by assessing the impacts of Our principal risks and uncertainties, as set out on pages 52 to 63, could have on our forecasts. In this assessment we've adopted a number of assumptions designed to stress test our resilience, in particular, we have not automatically assumed that, should the need arise, we would be able to raise new debt; we have instead considered this as part of any mitigating action.

Our assessment considered the following:

Individual risk modelling	**What:** potential financial impact of severe but plausible scenarios quantified for each of our principal risks and uncertainties
	Why: test of viability under any individual risk and uncertainty
	How: scenario produced for each risk, including a highly severe Covid-19 scenario based on very prolonged lockdowns above the level forecast in our medium term plan
	Outcome: stress testing confirmed that existing projected cash flows and cash management activities provide us with a buffer against the impact of any individual risk
Combined risk modelling	**What:** combination of the full financial impact of individual scenarios materialising simultaneously
	Why: test of viability should a combination of multiple risks materialise in parallel
	How: we combined the full financial impact of our highly severe Covid-19 scenario with our political risk from a disorderly Brexit, alongside supply chain risk from a complete ban on certain high-risk vendors
	Outcome: in this most extreme combined scenario we would need to take further action to mitigate the negative cash flow impact and ensure additional liquidity
	Mitigations: should we be able to raise new debt in line with our normal treasury funding policies we would fully mitigate any downside Should this not be possible other actions management could take include limiting or delaying discretionary capital expenditure and marketing activities, and adjusting our distribution policy. A reasonable combination of these actions would also fully mitigate any downside
Probabilistic risk modelling	**What:** model estimating the impacts of the individual severe but plausible scenarios
	Why: test of viability under multiple occurrences of severe scenarios
	How: modelling a probabilistic analysis of the potential financial impact of each individual risk if they materialise together with their likelihood of occurrence
	Outcome: In extreme probabilistic modelled scenarios we would need to take further action to mitigate the negative cash flow impact and ensure additional liquidity
	Mitigations: similar to the combined risks modelling above, should we be able to raise new debt in line with our normal treasury funding policies we would fully mitigate any downside Should this not be possible other actions management could take include limiting or delaying discretionary capital expenditure and marketing activities, and adjusting our distribution policy. A reasonable combination of these actions would also fully mitigate any downside

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