Lines of business
Consumer

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

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

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

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

**Consumer brands**

| Home phone | Home phone | Home phone |
| Broadband | Broadband | Broadband |
| BT TV | YouView TV on Plusnet | EE TV |
| BT Sport | BT Sport | BT Sport app |
| Mobile | Mobile | Mobile |

Our Consumer line of business offers products and services from both BT and Plusnet. Subscriber numbers and market share data for home phone, retail broadband and pay-TV are reported at group level and can be found in this section. Figures for mobile (also reported at group level) can be found in the EE section on page 62.

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

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

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

**Markets and customers**

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

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

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

**BT retail market share**

| Home phone | Retail broadband | Pay-TV |
| 39% | 37% | 9% |

Source: BT and Ofcom data.

**Home phone**

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

**Broadband**

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

**TV and content**

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

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\* Home phone includes Consumer and EE analogue and ISDN channels (A/I), including customers in Northern Ireland and Plusnet.
\* Retail broadband – Consumer (including Plusnet and Northern Ireland), EE, B&Ps, and broadband lines sold by Global Services.
\* TV refers to the total number of customers either with a BT Vision, YouView or EE TV box registered and enabled to receive video on demand including YouView from Plusnet.
Subscription video on demand (SVoD) content providers such as Netflix and Amazon Prime are becoming increasingly popular, although this is largely as a complement to traditional pay-TV rather than as a replacement.

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

**Mobile**

We describe the UK mobile market, including BT's overall position, in the EE section of this report starting on page 62.

**Products and services**

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

**Home phone**

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

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

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

**Broadband**

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

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

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

**BT Smart Hub**

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

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

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

EE broadband offers three similar products.
Lines of business continued
Consumer continued

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

BT TV comes in three different packages:

**Starter + BT Sport**
Over 70 Freeview channels, plus BT Sport channels; AMC; BoxNation and access to BT Store. This package comes with a YouView box which lets people pause and rewind live TV.

**Entertainment Plus**
Includes 110 channels, as well as a YouView+ box, which lets customers record up to 300 hours of programmes, pause and rewind live TV, and access seven days’ worth of catch-up TV. It also includes access to the BT TV app.

**Total Entertainment**
Offers 141 channels, including 21 in HD, also includes additional recording space on the set-top box; BT Sport in 4K Ultra HD and BT Kids TV.

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

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

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

**BT Sport**
There are four main live BT Sport channels.

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

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

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

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

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

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

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

**Performance in the year – strategic**

Customer experience remains our top priority.

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

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

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

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

**New diagnostics to help us detect and resolve faults**
Diagnostics are still progressing, while on-time repair performance improved by six percentage points over the course of the year. On average, our customers now have line fault issues fixed 24 hours quicker than last year.

**Simplifying our organisation**
We’ve broadened the skillsets of our agents and empowered them to take ownership of customers’ needs.

**Even so, work continues in this area**
Although a lot of progress has been made in the year on customer experience, the criticism we’ve received from both the media and the regulatory authorities over the year reinforces the need to redouble our efforts. One specific issue we need to address is the growing number of customers contacting us to discuss their monthly package price. The increasing number of contacts offset the progress made in other areas (such as fault resolution and providing services on time) and lowered the Right First Time score achieved by Consumer.
Investing for growth
This year we continued to focus on sustainable long-term growth, making several investments for the future. The table below summarises the progress made on the top priorities we set out in last year’s report.

Review of last year’s priorities

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

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

To partly offset this we cut costs by:
- consolidating suppliers shared by both Consumer and EE;
- encouraging customers to adopt a self-service approach – more than 1.4m of them now have the My BT app; and
- finding production and insourcing efficiencies in our TV business.

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

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

Consumer continued

Plusnet also won several awards:

<table>
<thead>
<tr>
<th>Organisation/publication</th>
<th>Award</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Broadband Genie Survey Awards 2017</strong></td>
<td>Best broadband provider</td>
</tr>
<tr>
<td></td>
<td>Best customer care</td>
</tr>
<tr>
<td></td>
<td>Most recommended provider</td>
</tr>
<tr>
<td></td>
<td>Best technical support</td>
</tr>
<tr>
<td></td>
<td>Most trustworthy provider</td>
</tr>
<tr>
<td></td>
<td>Best value provider</td>
</tr>
<tr>
<td><strong>uSwitch Broadband and Mobile Awards 2017</strong></td>
<td>Broadband provider of the year</td>
</tr>
<tr>
<td></td>
<td>Best provider customer service</td>
</tr>
<tr>
<td></td>
<td>Best value broadband provider</td>
</tr>
<tr>
<td><strong>Cable.co.uk Awards 2016</strong></td>
<td>Best broadband provider</td>
</tr>
<tr>
<td></td>
<td>Best reliability</td>
</tr>
<tr>
<td></td>
<td>Best customer service</td>
</tr>
<tr>
<td></td>
<td>Best value</td>
</tr>
</tbody>
</table>

Home phone, broadband and TV are reported on a group-wide basis in the section below. Mobile performance is also reported on a group-wide basis and can be found in the EE section on page 62.

**Home phone**

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

**Broadband**

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

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

**TV**

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

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

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

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

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

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

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

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

Priorities for the year ahead

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

Our top priorities for 2017/18 are:

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

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

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

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

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

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

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

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

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

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

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

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

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

The market is subject to a number of existing and potential structural changes:
– rapid adoption of 4G devices as 4G networks are deployed.
– growth of connected devices, including tablets;
– significant growth in mobile data use;
– continued decline in the prepaid market as customers move to postpaid tariffs;
– blurring of postpaid and prepaid customer types with rolling postpaid tariffs and auto-renewing prepaid bundles;
– popularity of SIM-only tariffs. Smartphones are evolving at a slower pace so people are keeping their mobile phones for longer; and
– regulatory pressure on the prices charged to customers and other telecoms companies.

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

### Mobile subscriber UK market share by operator

<table>
<thead>
<tr>
<th>Operator</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>BT including EE</td>
<td>29%</td>
</tr>
<tr>
<td>TalkTalk</td>
<td>1%</td>
</tr>
<tr>
<td>Virgin Mobile</td>
<td>4%</td>
</tr>
<tr>
<td>Tesco Mobile</td>
<td>6%</td>
</tr>
<tr>
<td>Three</td>
<td>11%</td>
</tr>
<tr>
<td>O2</td>
<td>22%</td>
</tr>
<tr>
<td>Sky (as MVNO)</td>
<td>27%</td>
</tr>
</tbody>
</table>

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

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

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

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

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

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

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

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

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

EE continued

Performance in the year – strategic
We’ve grown financially, improved customer experience and extended our mobile network while integrating with the group.

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

During the year we worked on projects across four key areas:
– Call centres – all EE customer service calls are now handled in UK and Ireland contact centres;
– Self-service – we now have 9m customers using My EE;
– Shops – we’re improving our service; and
– IT – we’re enhancing our customer-facing IT systems.

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

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

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

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

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

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

Performance in the year – operating
We report mobile customer numbers on a total BT Group basis, including those from other lines of business.

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

<table>
<thead>
<tr>
<th>Customer base by type</th>
<th>M2M</th>
<th>MVNO</th>
<th>Prepay</th>
<th>Postpay</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2,439</td>
<td>3,760</td>
<td>6,921</td>
<td>16,916</td>
</tr>
<tr>
<td>of which 4G</td>
<td>40</td>
<td>78</td>
<td>18,628</td>
<td></td>
</tr>
</tbody>
</table>

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

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

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

Customer base movements

<table>
<thead>
<tr>
<th>000</th>
<th>M2M</th>
<th>MVNO</th>
<th>Prepay</th>
<th>PM</th>
<th>MVNO</th>
</tr>
</thead>
<tbody>
<tr>
<td>30,445</td>
<td>803</td>
<td>1,330</td>
<td>40</td>
<td>78</td>
<td>30,036</td>
</tr>
</tbody>
</table>

As at 1 April 2016
As at 31 March 2017
In last year’s report, we set out our top priorities for this year. In the table below we summarise the progress we’ve made.

### Review of last year’s priorities

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

### Performance in the year – financial

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

### Priorities for the year ahead

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

Our top priorities for 2017/18 are:

- **Maintain network leadership**
  - we’ll further extend 4G geographic coverage to 95% of the UK by 2020.

- **Carry on improving customer experience**
  - in the medium term we aim to become the mobile network operator with the best postpaid net promoter score.

- **Deliver the EE part of the Emergency Services Network contract**
  - we’re aiming to finish building and testing by the end of September 2017.
Lines of business
Business and Public Sector

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

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

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

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

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

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

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

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

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

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

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

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

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

Our main competitors in this area are O2 and Vodafone. Both offer fixed products as well as mobile and are increasingly selling converged services.
Fibre and connectivity
Broadband services are still migrating to fibre in order to meet the need for faster communication speeds. We're the largest business broadband provider in the UK.

Networking is moving from physical provision to software-based, virtual provision. It’s expanding into the wide area networking space through technologies such as Software Defined Networking (SDN). See page 71 for more details.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BT Cloud Voice, a feature-rich, cloud-based phone system with the flexibility to meet the demands of the modern, agile business
Performance in the year – strategic
Our continued investments in our people and our portfolio has helped improve the customer experience we provide while positioning us to exploit the market move to convergence.

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

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

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

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

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

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

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

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

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

Contracts we won or re-signed this year include:

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

The number of business lines we provide fell by 9% as customers continue to migrate to VoIP. This has been partly offset by growth in the number of IP lines, up 78%. We’re seeing strong take-up of our BT Cloud Voice and BT Cloud Phone services with user numbers up 258% and 94% respectively.
In last year’s report, we set out our top priorities for this year, the table below summarises the progress we’ve made against them.

Review of last year’s priorities

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

Performance in the year – financial

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

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

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

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

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

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

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

Priorities for the year ahead

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

Our top priorities for 2017/18 are:

Drive growth from greater sales coverage, acquiring and cross-selling to customers
- increase the average number of products sold per customer.

Differentiate through an integrated experience and portfolio, delivered on the best network
- growth in the strategic portfolio areas of IP Voice, Mobile, Networking and IT services.

Continue to improve the customer experience we provide
- further improvements in NPS.

---

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

---

* excludes specific items, foreign exchange movements and disposals and from 2016/17 is calculated as though EE had been part of the group from 1 April 2015.
* Includes EE’s historical financial information as though it had been part of one group from 1 April 2015, under the new organisational structure.
Lines of business
Global Services

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

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

During the year, we identified inappropriate behaviour in our Italian business. This is an extremely serious matter and has no place in BT. For full details of what we found, how we responded and what we will do going forward see page 6.

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

Global Services revenue by region
Year ended 31 March 2017

- 30% UK
- 12% AMEA
- 21% Americas
- 37% Continental Europe

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

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

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

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

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

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

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

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

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

Technology trends mean that we are now less dependent on owning physical local network access assets around the world, creating the opportunity to reposition Global Services as a more focused digital business. We will prioritise innovation of cloud-based platforms that deliver our products and services, with BT’s global network at the core, to support the digital transformation of our customers. As we implement this strategy, we will ensure that we optimise the value of our global and our local network assets.
To enable this strategic repositioning, we are restructuring our Global Services organisation to a simpler operating model. This will involve a two-year restructuring of our operations, the costs of which will be treated as a specific item.

**Key market trends**

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

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

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

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

**Products and services**

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

**Our six core product families**

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

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

- **BT Security**
  With cyber-attacks a daily event, cyber security is firmly on the boardroom agenda for many companies. We use the expertise we’ve gained from protecting BT to deliver managed security services, threat intelligence analysis and management, and consultancy services, helping our customers protect their organisations from this growing threat.

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

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

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

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

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

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

- **BT Advise**
  Our global team of around 2,000 consultants work closely with customers to understand their business needs and current capabilities so we can create a set of recommendations based on our portfolio. We develop a plan to help customers achieve benefits such as cutting costs, increasing productivity or becoming more agile.
BT for Industries
Our industry-specific solutions help customers overcome particular challenges.
For example:
- our **Digital Consumer** solution enables retailers to provide an online experience to shoppers in physical stores;
- our **Field Force Automation** solutions provide mobile workers with access to corporate applications regardless of their location; and
- **BT Radianz**, the world’s largest secure, financial services cloud community, helps customers cut costs, get to market faster and perform the best trading options.

### Performance in the year – strategic

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

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

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

#### Investing for growth
We’ve invested in a new generation of networking technologies, giving us an innovative way to build and manage corporate networks.

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

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

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

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

Our cost transformation programme uses our tried-and-tested approach to improve process efficiency, reduce the cost of failure, enhance the network and improve the value for money we get from our suppliers. For example:
- **Operating model review in AMEA.** We’ve established a consistent and standardised set of principles to improve our performance in countries where we have a low number of resources.
- **Service delivery.** We’ve combined our design and delivery functions to enable faster, more consistent delivery of services at lower cost.
- **Contract reviews.** We’ve reviewed opportunities across shared services and third-party costs. We’ve also introduced improvements in the delivery and in-life support stages of contracts to improve their profitability.
- **Data centres.** We’re evaluating our existing global data centre estate and consolidating our sites to lower our cost base while improving our service offering.

Performance in the year – operating
We achieved a total order intake of £4.6bn, down 10% reflecting challenging international corporate market conditions.

The table below summarises the progress we’ve made on the top priorities we set out in last year’s report.

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

Contracts we won this year include:

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

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

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>2017 £m</th>
<th>2016£m</th>
<th>2015£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>5,479</td>
<td>5,074</td>
<td>5,218</td>
</tr>
<tr>
<td>Underlying revenue excluding transit adjusted for the acquisition of EE</td>
<td>(2)%</td>
<td>0%</td>
<td>n/a</td>
</tr>
<tr>
<td>Operating costs</td>
<td>4,884</td>
<td>4,595</td>
<td>4,753</td>
</tr>
<tr>
<td>EBITDA</td>
<td>495</td>
<td>479</td>
<td>465</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>439</td>
<td>422</td>
<td>444</td>
</tr>
<tr>
<td>Operating profit</td>
<td>56</td>
<td>57</td>
<td>21</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>361</td>
<td>355</td>
<td>406</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>(245)</td>
<td>151</td>
<td>28</td>
</tr>
</tbody>
</table>

In AMEAb underlyings revenue decreased by 4% (2015/16: up 10%) due to milestone-related revenue in the prior year. In Continental Europe, underlying revenue excluding transit decreased 5% (2015/16: down 1%) and, excluding the revenues of our Italian business, was up 3% (see page 6).

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

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

EBITDA increased 3% (2015/16: 3%). Underlying EBITDA adjusted for the acquisition of EE was down 11% and excluding the results of our Italian business was up 1%. We have described the issues in Italy on page 6. Depreciation and amortisation was up 4% (2015/16: down 5%). Operating profit decreased by £1m (2015/16: up £36m).

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

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

Priorities for the year ahead

Over the next 12 months we will continue to focus on delivering improved operational efficiency and great customer experience.

Our top priorities for 2017/18 are:
- implement a leaner and more customer-focused operating model;
- grow our cloud-based services and our security portfolio at double-digit rates; and
- launch a new digital customer experience, leveraging automation and portfolio innovation eg NFV/SDN.
On 1 April 2016 we integrated BT Wholesale with EE's wholesale team and some of BT's specialist business units to form Wholesale and Ventures. We've 3,800 people, including 900 in BT Fleet and 700 in BT Supply Chain.

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

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

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

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

We also use the EE network to provide machine-to-machine services, as explained on page 76.

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

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

**Products and services**

**Broadband and Ethernet**

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

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

**Wholesale Ethernet: present in BT exchanges**  
As at 31 March

<table>
<thead>
<tr>
<th>Year</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1,232</td>
</tr>
<tr>
<td>2015</td>
<td>1,366</td>
</tr>
<tr>
<td>2016</td>
<td>1,482</td>
</tr>
<tr>
<td>2017</td>
<td>1,911</td>
</tr>
</tbody>
</table>

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

**Voice**

CPs use our IP Exchange (IPX) platform to carry their customers’ voice calls beyond the reach of their own voice network. IPX is now used by over 170 CPs, including most of the UK’s biggest operators.

CPs without their own voice network can use Wholesale Calls, which routes calls for them end to end. The CP maintains the customer relationship through its own sales, customer service and billing.

**Hosted communications**

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

**Mobile Virtual Network Operator**

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

**Virgin Mobile**

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

**Machine-to-machine**

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

**Media services**

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

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

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

**Premier League Productions**

This year we installed the UK’s first uncompressed outside broadcast network for Premier League Productions (PLP), a partnership between the Premier League and international sports production company IMG.

We now provide live HD video feeds between all 20 Premier League football stadiums and IMG’s studios in London. This means IMG can move its production facilities from the stadium to its studios; while PLP can eliminate the issues associated with distributing compressed video, such as delays and reduced image quality.
**Ventures**
Several of our ventures provide well-known services nationwide:

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

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

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

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

Other ventures are more enterprise-oriented:

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

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

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

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

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

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

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

**33,000**
vehicles sourced, managed and maintained for BT Fleet

**58,000**
vehicles managed for external customers

---

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

**Performance in the year – strategic**

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

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

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

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

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

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

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

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

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

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

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

Transforming our costs
Our many ongoing cost transformation projects continued to deliver savings through:
- reduction in supplier cost by renegotiating better terms and changing or consolidating suppliers;
- lowering our network cost by re-engineering existing platforms and improving their utilisation;
- consolidation of legacy and end-of-life platforms; and
- better productivity, together with rationalisation of support functions and overheads.

This year we signed almost £2bn of orders. Deals included:
- extending our MVNO deals with Virgin Media and ASDA;
- supplying an Avaya Cloud Solution for thousands of contact centre staff at a major utility provider;
- re-signing a number of large Ethernet contracts, securing those circuits for the future;
- new IoT solutions for major corporate clients; and
- taking over management of the Environment Agency’s 1,350 vehicles.

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

The first units will be deployed in London in 2017. We expect them to generate substantial advertising revenue while benefiting the communities in which they operate.
In last year’s report we set out our top priorities for this year. In the table below we report back on what we’ve achieved.

### Review of last year’s priorities

<table>
<thead>
<tr>
<th>WHAT WE SAID</th>
<th>WHAT WE DID</th>
</tr>
</thead>
<tbody>
<tr>
<td>We said we’d integrate the various business units that now comprise W&amp;V.</td>
<td>We launched the new W&amp;V organisation on 1 April 2016.</td>
</tr>
<tr>
<td>We said we’d create revenue and cost synergies as a result of the new organisation.</td>
<td>The many services provided by our new, digital street units (page 78) draw on a wide range of BT capabilities. These include payphone sites, BT Wi-fi, the fibre networks that connect the payphone to the internet and to the BT platform providing IP voice calls, BT’s Next Generation Text Service, and end-to-end service management. And we’ve made good progress in creating cost synergies in our Supply Chain operations.</td>
</tr>
<tr>
<td>We said we’d continue to improve customer experience, especially in Ethernet delivery.</td>
<td>We achieved our best RFT result for many years. For Ethernet specifically we implemented a new and much improved ordering system. And we designed a new Ethernet service that will run over 4G; we’ll be trialling this with customers early in the new financial year.</td>
</tr>
<tr>
<td>We said we’d further expand our Ethernet network.</td>
<td>We expanded our Ethernet network to another 429 exchanges.</td>
</tr>
<tr>
<td>We said we’d increase the number of customers using fibre rather than copper broadband.</td>
<td>Our fibre broadband base rose by over 60,000 this year.</td>
</tr>
<tr>
<td>We said we’d further strengthen our defences against attempted cyber attacks and fraud.</td>
<td>We’ve upgraded many of our internet-facing systems with additional firewall protection.</td>
</tr>
<tr>
<td>We said we’d continue our cost transformation activities.</td>
<td>We further reduced our own network costs and overheads, as well as third-party supplier costs.</td>
</tr>
</tbody>
</table>

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

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

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

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

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

22bn
voice minutes carried by IPX.
Up 9% on 2016

5,000
we helped upgrade and/or install over 5,000 4G transmission sites
Performance in the year – financial
Revenue was down 7%, or 3% adjusted for the acquisition of EE, compared with a 4% decline last year. This included £30m or 37% less transit revenue than the year before.

Last year our reported numbers included all revenues from EE as a customer until the end of January 2016. Where appropriate, we give yearly comparisons both including and excluding those revenues.

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>2017 £m</th>
<th>2016 £m</th>
<th>2015 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>2,109</td>
<td>2,274</td>
<td>2,361</td>
</tr>
<tr>
<td>Underlying revenue a excluding transit adjusted for the acquisition of EE</td>
<td>(3)%</td>
<td>0%</td>
<td>n/a</td>
</tr>
<tr>
<td>Operating costs</td>
<td>1,275</td>
<td>1,519</td>
<td>1,615</td>
</tr>
<tr>
<td>EBITDA</td>
<td>834</td>
<td>755</td>
<td>746</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>306</td>
<td>253</td>
<td>245</td>
</tr>
<tr>
<td>Operating profit</td>
<td>528</td>
<td>502</td>
<td>501</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>226</td>
<td>209</td>
<td>294</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>587</td>
<td>536</td>
<td>416</td>
</tr>
</tbody>
</table>

Revenue was down 7% or 3% adjusted for the acquisition of EE. This reflects the market decline in legacy products offset by growth in Ventures.

Managed Solutions revenue declined 33%. MEAS saw a 6% fall: mobile networks have now largely completed this phase of their network installation programme, so they added capacity at fewer sites and connected fewer new sites. This was partially offset by growth in other contracts.

Data and Broadband revenue was down 5%, driven largely by Partial Private Circuits, though there was good growth in fibre broadband. Ethernet saw a 14% increase as the rental base grew to 43,800.

Voice revenue was down 22% due to the market decline in call volumes and the inclusion of ladder revenues in last year’s numbers.

Wholesale Mobile revenue was £223m, supported by growing data usage and more customers moving to 4G.

Ventures revenue of £312m was up 7% compared to last year. This was driven by growth in BT Fleet, thanks to new strategic alliances, and in BT Supply Chain which enlarged its external customer base. These were offset by a £6m reduction in BT Cables because of lower demand for copper cabling, and another £6m reduction as our Phone Book, Payphones and BT Redcare businesses declined in line with their markets.

Operating costs decreased 16%, while underlying operating costs excluding transit were down by 15%.

EBITDA grew quarter on quarter throughout the year. It was up on the prior year by 10% but down 6% adjusted for the acquisition of EE. This reflected lower revenues and the continuing migration to lower-margin IP services, offset by growth in Wholesale Mobile and Ventures.

Depreciation and amortisation was up 21% (2015/16: 3%), primarily due to the inclusion of Ventures assets such as BT Fleet vehicles. Operating profit went up by 5% (2015/16: flat).

Capital expenditure was up 8% because of investment in new MVNO platforms. Working capital was impacted by timing on managed solutions invoicing and VAT; this contributed to a 10% increase in free cash flow.

Priorities for the year ahead

Over the next 12 months we’ll carry on investing for the future and further enhancing our customer experience.

Our top priorities for 2017/18 are:

Roll out new services
– start to deploy our new digital street units; and
– expand our managed services capacity, to help customers run their networks and operations.

Develop new solutions
– helping mobile network operators prepare for the next generation of 5G mobile networks;
– adding 4G mobile access to our Hosted Communications Portfolio; and
– for the Internet of Things.

 Improve our customer experience
– in particular our RFT delivery for Wholesale Ethernet and Hosted Communications Services.
Lines of business
Technology, Service and Operations (TSO)

TSO is our internal technology unit. It’s responsible for creating and operating our global networks, platforms and IT systems.

We work closely with each of our lines of business, creating new products for them and making sure that services evolve to reflect the changing needs of their customers. And we make sure that BT’s networks and systems are reliable and resilient.

We manage BT’s research and development and our worldwide patent portfolio. Find out more on page 32.

There are more than 13,000 people in TSO, and this year we recruited over 220 graduates and apprentices. TSO people work on a wide variety of rapidly-changing technologies so we’ve developed comprehensive training and career pathways to attract and retain the best talent. For example, we now offer Degree Apprenticeships that allow apprentices to achieve a full bachelor’s degree while training on the job.

Products and services
We manage the infrastructure for BT’s products, services and internal systems, such as our IT systems and voice, data and TV networks.

BT manages networks for many of the world’s top companies. Our people design and deliver the solutions that make this happen.

Performance in the year – strategic

1 Delivering great customer experience
To overcome wi-fi problems that people can encounter in the home, we developed and launched the BT Smart Hub. This uses smart technology such as improved antennas to improve wi-fi performance.

We also developed the systems behind the new BT Call Protect service, designed to stop companies that regularly pester our customers with nuisance calls. Find out more on page 57.

2 Investing for growth
This year we’ve completed the rollout of our new Ethernet switches. They’re now installed in 585 exchanges so even more businesses can access BT Ethernet services.

We’re also embracing new technologies such as programmable networks. These deliver services faster and provide real-time visibility and control of a customer’s network. With the launch of Dynamic Network Services we’re offering these capabilities to Global Services’ customers.

We’ve also completed the first voice calls on our single fixed and mobile infrastructure which enables us to offer new converged services such as high-definition voice calling.

3 Transforming our costs
Following the acquisition of EE we’ve taken the opportunity to review and rationalise the number of applications we use.

We’re also migrating applications onto our Enterprise Cloud, making them easier to manage and lowering their running cost.

Performance in the year – operating
We’re always looking for new ways to maintain and refresh the technology in our networks and service platforms.

We’ve seen record levels of data traffic sustained throughout the year, and our investments have been focused to maintain high levels of performance.

For example, we installed infrastructure that cuts congestion in the core network to improve the UK broadband experience. See page 30 for more on the improvements we’ve been making to our networks.

We’ve improved the reliability of the IT systems we use to trade with our customers for the fourth year in a row. We’ve also continued to cut our costs and the group’s energy consumption. See page 42 for more details.
Lines of business continued  
Technology, Service and Operations (TSO) continued

The table below summarises the progress we’ve made on the top priorities we set out in last year’s report.

Review of last year’s priorities

<table>
<thead>
<tr>
<th>Priorities for the year ahead</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over the next 12 months we’ll carry on improving our networks, platforms and IT systems, and doing everything possible to help deliver a great customer experience.</td>
</tr>
</tbody>
</table>

Our top priorities for 2017/18 are:

- **Enhance the UK broadband experience**
  - deploy architectural and infrastructure improvements to cope with broadband traffic growth and improve the quality of the UK broadband experience.

- **Extend 4G coverage**
  - deliver upgrades to existing mobile cell sites and deploy new cell sites to increase 4G coverage in support of the Emergency Service Network contract.

- **Improve systems reliability**
  - continue to improve the reliability of our IT and network platforms, ensuring they’re as resilient as possible.

### Priorities for the year ahead

<table>
<thead>
<tr>
<th>Review of last year’s priorities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>We said we’d develop technology solutions that increase the broadband speeds for homes at the end of long copper lines.</strong></td>
</tr>
<tr>
<td>WHAT WE SAID</td>
</tr>
<tr>
<td>We said we’d develop technology solutions that increase the broadband speeds for homes at the end of long copper lines.</td>
</tr>
</tbody>
</table>

| We said we’d move from a technology trial to a live customer trial of an all-IP voice service. |
| WHAT WE SAID | WHAT WE DID |
| We said we’d move from a technology trial to a live customer trial of an all-IP voice service. | We’ve started running wholesale and communications provider trials of IP voice. |

| We said we’d investigate technology that could provide better picture quality on our TV platform. |
| WHAT WE SAID | WHAT WE DID |
| We said we’d investigate technology that could provide better picture quality on our TV platform. | We’ve performed perception tests to see what viewers think of the latest developments in TV technology. |

| We said we’d enhance the cloud-based services that we offer to businesses. |
| WHAT WE SAID | WHAT WE DID |
| We said we’d enhance the cloud-based services that we offer to businesses. | We added a new software-defined WAN service to Global Services’ dynamic network services portfolio. |

| We said we’d continue our network rationalisation. |
| WHAT WE SAID | WHAT WE DID |
| We said we’d continue our network rationalisation. | We turned off some of the equipment in our PSTN network that we no longer needed, saving over £1m in energy costs. By removing this older equipment, we’ve also released spares to avoid repair costs and help contribute to the best performance of the PSTN in eight years. |
Lines of business

Openreach

As the people responsible for building and maintaining much of the country’s digital infrastructure, we have continued to provide the foundation for Britain’s booming digital economy against a backdrop of profound changes to our business.

This has been a momentous year for Openreach

Over the past 12 months, we’ve made big strides in our strategy to deliver better service, broader coverage and faster speeds for the UK. At the same time, how we operate and how the market should be regulated have been fiercely debated topics.

The major theme in Ofcom’s once-in-a-decade Digital Communications Review became the extent to which we should operate more independently from BT – and in March 2017, a long-term regulatory settlement was agreed that will see us become a distinct, legally separate company within BT Group.

Fundamental governance changes

Under this agreement, we’re gaining more control of our strategy, investments and plans within a strategic and financial framework defined by BT. This means we can make more of our own decisions and be more autonomous, transparent, and accountable to everyone who has a stake in us. This will strengthen our ability to work in partnership with all our customers and deliver the communications infrastructure that is the foundation of the UK’s vibrant internet economy.

Central to these changes are a first-class governance structure and a new board with a majority of independent members. I was delighted to be appointed as the first Openreach chair back in November 2016. I’m also pleased to have appointed three independent board members of the highest calibre: Sir Brendan Barber, former general secretary of the Trades Union Congress and current chair of Acas; Edward Astle, a former board member of National Grid and current member of the Equality of Access Board (EAB); and Liz Benison, chief executive, UK & Europe, Local & Regional Government at Serco.

Our new board will work closely with Clive Selley and his executive team, and we’ll be responsible for setting the Openreach strategy whilst overseeing its performance. We’ll also make sure the business treats all customers equally and continues to invest in Britain’s digital future.

Rising to the challenge

We’re responsible for services that are hugely important to people and businesses throughout the country. The scale of what we manage is huge – overseeing 158m kilometres of telecommunications wires and fibre cables and more than 25,000 customer interactions every day.

We recognise the importance and size of the challenge before us.

We’re making progress in moving Openreach forwards and our renewed focus on service is starting to deliver improvements for our Communication Provider customers and their customers. Clive’s team halved the number of missed appointments Openreach is responsible for by the end of the financial year. And we’ve halted a historical rise in faults across our network. We’ve also continued to build our superfast broadband network for homes and businesses, and we’re increasingly upgrading the most remote and hard-to-reach areas of the country in partnership with both government — via the BDUK programme — and with individual communities and housebuilders.

We made our fibre network available to over a million more premises this year and we won’t stop there. We’re also continuing with our ambitions to scale ultrafast technologies, to make speeds of over 100Mbps available to up to 12 million homes and businesses by 2020.

In 2016 Ofcom reported that the UK already had the highest fibre broadband availability of all the major European economies and, thanks to our open wholesale network, we have one of the most competitive telecommunications markets anywhere in the world. I’m confident that continuing to invest in our broadband network and working more closely and collaboratively with our customers and the wider industry will provide the national telecommunications infrastructure necessary to support the future growth of the UK economy, something that will be particularly important as we leave the EU.

Financial investment in our network alone will not deliver the change we need — we’ll invest in our people too. This year we’ll expand our engineering workforce by hiring 1,500 trainees and we’ll train more engineers to complete more tasks in a single visit. That will play a pivotal role in ensuring we meet our customers’ expectations.

Finally, I want to address the issue of Deemed Consent. Ofcom’s investigation into Deemed Consent practices showed that in the past, Openreach made a number of mistakes when processing orders for high-speed business connections. This simply shouldn’t have happened and we apologise wholeheartedly to the communications providers affected. During my short time in Openreach, I’ve seen significant improvements being made to the way we deliver these connections and we are determined to make sure the same mistakes aren’t repeated in future.

We’re committed to fixing the issues of the past, delivering better service, and investing in our network — and we recognise that to be successful in these goals, we need to work in closer partnerships with our customers, the wider industry, regulators and government. By working as a team, we can achieve success collectively and build the telecommunications infrastructure that will power Britain’s leading digital economy for years to come.

Mike McTighe
Chairman
11 May 2017
We're responsible for providing services over the local access network, sometimes referred to as ‘the last mile’, installing and maintaining the fibre and copper communications networks that connect homes and businesses.

Communications Providers (CPs) access our network on equivalent terms, which means they have access to the same products, prices and levels of service. They use our network to deliver services ranging from home broadband, television and telephone to high-speed data connections for businesses of all sizes.

Openreach local access network

<table>
<thead>
<tr>
<th>Exchange PCP G.fast</th>
<th>FTTC</th>
<th>PCP</th>
<th>G.fast</th>
<th>DP</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTTP</td>
<td>Splitter</td>
<td>DP</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

c5,500 exchanges | c97,800 PEPs | c6.7m DPs | c30m premises |

Delivering a more independent Openreach

We're pleased that the proposals to further enhance the organisational structure of our business have been accepted by Ofcom as a pragmatic solution to meeting its DCR concerns. We're fully committed to implementing the requirements of the Commitments and Governance Protocol which includes a focus on compliance, increased transparency and improved customer engagement as quickly as possible.

We’ve already started to introduce new governance and measures, where possible and appropriate, in advance of full implementation of the DCR agreement. For example, we’ve made a number of governance reforms to make Openreach a more transparent and autonomous business. In November 2016 we appointed our first chairman, Mike McTighe, who is leading our newly-formed board.

The board has a majority of independent members and will be responsible for setting Openreach’s strategy and overseeing its performance. It will make sure we treat all customers equally while investing in better service, broader coverage and faster broadband speeds for the UK.

Other activity underway includes the development of a new CP consultation process for major new strategic investments and the redesign of the Openreach brand to remove the reference to BT Group and the associated logo.

We’re also preparing for the implementation of the remainder of the DCR agreement, including incorporation of Openreach Limited and the transfer of employees to it, once the preconditions have been met.

Markets and customers

The UK has the highest share of GDP generated by the digital economy of any country in the G20, and the highest superfast availability and take-up compared to our major European peers. We’re playing our part in this success story by building and operating the largest superfast network in the country.

At the end of December 2016 there were 25.3m broadband lines in the UK. 80% of these, excluding Hull, use the Openreach network with the rest mainly on Virgin Media’s cable network.

### Total UK broadband market

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td>M</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>25</td>
<td></td>
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<td></td>
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<tr>
<td>24</td>
<td></td>
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<tr>
<td>23</td>
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<tr>
<td>22</td>
<td></td>
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<tr>
<td>21</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* As at December 2016.
Source: Company data.

Our customers are the CPs who provide communications services to end customers, and property developers building new properties.

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France, Germany, Italy and Spain.
There are more than 580 CPs using our network. They operate in three markets:
- **Consumer** – made up of households using fixed-line broadband and telephone services. Our largest customers include BT’s Consumer division, Sky and TalkTalk;
- **Business** – consisting of the 5.5m businesses in the UK. Most of our customers serve business clients; and
- **Infrastructure** – including firms building network infrastructure to data centres and mobile cell sites, and property developers connecting new developments.

We also have relationships with communities throughout the UK who co-fund investment in fibre networks with us through Community Fibre Partnerships.

The market trends are:
- ongoing demand for connectivity as total fixed broadband ownership steadily rises;
- increasing data usage, propelled by video streaming driving demand for faster connections and major investment in backhaul capacity and network reach;
- cloud computing increasing corporate demand for connectivity;
- a fast-growing data centre market creating a new need for high-capacity circuits (1Gbps or more); and
- strong demand for Ethernet and optical service products as businesses seek better speeds and reliability.

### Average monthly fixed data usage per residential connection

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Usage (GB)</td>
<td>23</td>
<td>30</td>
<td>58</td>
<td>97</td>
<td>132</td>
</tr>
</tbody>
</table>


### Competitors

Our main competitors are other network builders, the largest being Virgin Media. Its cable network covers around half of UK homes, with plans to reach around 17m premises by 2019.

Other companies are building their own fibre access networks, reflecting the competitive nature of the market. CityFibre, Hyperoptic and Gigaclear are deploying fibre-to-the-premises across urban and rural areas, increasing the competition we face.

Competitors in the business and infrastructure markets include Virgin Media, Colt Group and Vodafone. CityFibre’s prominence in this market continues to grow as it fulfils its plans to cover 50 ‘Gigabit cities’ by 2020.

Pricing, service delivery and product innovation remain competitive themes. The ‘price per Gigabit’ is being pushed down by intense competition, particularly in urban areas. The introduction of a Dark Fibre product later in 2017 will increase price competition further.

### Products and services

We provide network access and engineering services as well as four main products and services: copper access, fibre access, Ethernet and optical, and infrastructure solutions. Our network can carry broadcast and on-demand internet protocol television (IPTV). Our multicast service over fibre cuts the cost of broadcast TV. We also provide access to our network via our ducts and poles and will be launching a new Dark Fibre product in October 2017 (subject to CAT ruling).

**Copper access**
- Wholesale Line Rental (WLR) lets CPs offer phone services to their customers using our equipment and copper network. They pay to use the lines between our exchanges and the customer premises.
- Local Loop Unbundling (LLU) provides CPs with a direct connection to the local network, or local loop. CPs can install their own equipment in, or near to, our exchanges, and use it to provide phone and broadband services to their customers.

**Fibre access**
Our wholesale fibre product is called Generic Ethernet Access. We offer a number of versions:
- Fibre-to-the-cabinet (FTTC) uses fibre from the exchange to the street cabinet and the existing copper network for the final link to the customer.
- Fibre-to-the-premises (FTTP) uses fibre all the way from the exchange to the property and offers ultrafast speeds from 100Mbps up to 1Gbps. We’ve launched 500Mbps and 1Gbps speed tiers for smaller businesses needing ultrafast speeds at lower price points than Ethernet.

This allows us to offer superfast broadband (speeds over 24Mbps) via FTTC and FTTP and ultrafast broadband (speeds over 100Mbps) via G.fast and FTTP.
Performance in the year – strategic

Delivering great customer experience

The internet is an essential part of modern life. Every year, customers expect more from the service we provide, and we’re committed to meeting their needs.

The table on page 87 shows Openreach’s service performance on a number of key measures known as Minimum Service Levels (MSLs). These are quality of service standards for installation and repair which are set by Ofcom and increase annually. In May 2016, six Ethernet MSLs were added to the existing set of 60 copper MSLs. We publish this data quarterly with additional levels of detail.

This year we exceeded all 40 of Ofcom’s copper MSLs that were due in the year, for the third year in a row. And we remain ahead on the other 20 which are measured to March 2018.

We keep making progress with our Ethernet delivery, improving quality of service, providing more Ethernet circuits than ever before, and reducing the average age and number of jobs in our workstack.

Even so, we’re disappointed that we’ve missed one of the Ethernet MSLs due to the impact of our most complex Ethernet orders, where we experience delays that aren’t fully within our control such as road traffic management.

We launched the ‘Better service’ campaign to make real improvements in our customer service. We halved missed appointments by the end of the financial year. And we invested £32m to improve resilience and halt a historical rise in network faults. We also cut the number of customers waiting over 90 days for new orders by 60%.

Our Customer Satisfaction Score is provided by end customer surveys from our CP customers. The CPs’ sampling strategy has changed through the year making a like-for-like comparison difficult and has resulted in our performance being under reported. We’re working with the CPs to standardise sampling to enable future year-on-year comparisons.

Right First Time, improved by 5.1% (down 6% in 2015/16), focusing particularly on time to repair. We completed 79% of repairs on timea, a four percentage point increase compared with last year, and reduced the average time to restore service by five hours. We see the MSLs as a baseline and set ourselves a more challenging RFT target because we know there’s more to be done to deliver the service our customers expect.

We’ve proactively improved our PIA processes by providing greater flexibility and self-service options. These include a digital map of our network which makes it quicker and easier for CPs to understand where our ducts and poles can help them to roll out fibre.

Lines of business continued
Openreach continued

Ethernet and Optical

CPs use these high-speed fibre connections to build and extend their networks and provide high-quality, high-bandwidth services to businesses and the public sector.

- **Ethernet Access Direct (EAD)** offers competitive services, from 10Mbps to 10Gbps, to all UK businesses and infrastructure markets.
- **Optical Spectrum Services (OSS)** are scalable wavelength solutions offering up to 100Gbps at any distance.

Infrastructure solutions

Our infrastructure solutions let CPs build their own networks. They allow third parties to request rearrangements of our network and for us to work on their networks.

- **Flexible Co-mingling** allows CPs to place their equipment in our exchanges.
- **Physical Infrastructure Access (PIA)** lets CPs use our ducts and telephone poles to deploy their own fibre networks. PIA has been available since 2011.
- **Mobile Infill Infrastructure Solution (MiiS)** lets CPs install their radio equipment in special cabinets linked to antennas on telephone poles and use their spectrum to improve mobile coverage.
- **Network rearrangements** help third parties to progress their projects by moving or removing our network.

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a For copper-based services.
b For LLU, WLR, PSTN and NGA services.
### Openreach performance against service responsibilities

#### Home and smaller businesses

<table>
<thead>
<tr>
<th>Metric</th>
<th>Movement</th>
<th>Q4 2016/17</th>
<th>Q4 2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average time to install with an engineer (working days)</td>
<td>✓</td>
<td>13.22</td>
<td>14.44</td>
</tr>
<tr>
<td>Average time to install without an engineer (working days)</td>
<td>✓</td>
<td>9.64</td>
<td>9.49</td>
</tr>
<tr>
<td>Installation requiring an engineer where wait is 22 days or longer for an appointment</td>
<td>✓</td>
<td>0.37%</td>
<td>1.12%</td>
</tr>
<tr>
<td>Average time for first available appointment date for new installation (working days)</td>
<td>✓</td>
<td>6.82</td>
<td>8.51</td>
</tr>
<tr>
<td>New lines requiring an engineer visit not installed 31 days past target date</td>
<td>✓</td>
<td>1.65%</td>
<td>1.34%</td>
</tr>
<tr>
<td>Average time to fix faults Maintenance level 1 (working days)</td>
<td>✓</td>
<td>1.99</td>
<td>2.82</td>
</tr>
<tr>
<td>Average time to fix faults Maintenance level 2 (working days)</td>
<td>✓</td>
<td>1.72</td>
<td>1.94</td>
</tr>
<tr>
<td>Faults not cleared after 31 days or more Maintenance level 1</td>
<td>✓</td>
<td>0.62%</td>
<td>1.60%</td>
</tr>
<tr>
<td>Faults not cleared after 31 days or more Maintenance level 2</td>
<td>✓</td>
<td>0.94%</td>
<td>1.79%</td>
</tr>
</tbody>
</table>

#### Home and smaller businesses Minimum Service Levels

<table>
<thead>
<tr>
<th>Metric</th>
<th>Movement</th>
<th>Ofcom minimum standard</th>
<th>Q4 2016/17</th>
<th>Q4 2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>New lines installed on time (WLR3)</td>
<td>✓</td>
<td>89%</td>
<td>94.55%</td>
<td>93.84%</td>
</tr>
<tr>
<td>New lines installed on time (MPF)</td>
<td>✓</td>
<td>89%</td>
<td>94.14%</td>
<td>93.02%</td>
</tr>
<tr>
<td>First available appointment date for new installation (working days) 12 days or less (WLR3)</td>
<td>✓</td>
<td>79%</td>
<td>92.91%</td>
<td>86.54%</td>
</tr>
<tr>
<td>First available appointment date for new installation (working days) 12 days or less (MPF)</td>
<td>✓</td>
<td>79%</td>
<td>95.38%</td>
<td>89.65%</td>
</tr>
<tr>
<td>Faults fixed within agreed time Maintenance level 1</td>
<td>✓</td>
<td>77%</td>
<td>86.54%</td>
<td>74.53%</td>
</tr>
<tr>
<td>Faults fixed within agreed time Maintenance level 2</td>
<td>✓</td>
<td>77%</td>
<td>81.87%</td>
<td>76.14%</td>
</tr>
</tbody>
</table>

#### Larger business Minimum Service Levels

<table>
<thead>
<tr>
<th>Metric</th>
<th>Movement</th>
<th>Ofcom minimum standard</th>
<th>2016/17 full year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average time to install (working days)</td>
<td>✓</td>
<td>46</td>
<td>41.4</td>
</tr>
<tr>
<td>Delivery date certainty</td>
<td></td>
<td>80%</td>
<td>85.4%</td>
</tr>
<tr>
<td>Circuits provided in 30 working days</td>
<td></td>
<td>40%</td>
<td>57.4%</td>
</tr>
<tr>
<td>Circuits provided in more than 159 working days</td>
<td></td>
<td>3%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Average time to initial CDD* (working days)</td>
<td></td>
<td>61</td>
<td>40.2</td>
</tr>
<tr>
<td>Faults fixed within agreed time</td>
<td></td>
<td>94%</td>
<td>94.2%</td>
</tr>
</tbody>
</table>

**Notes:**
- The homes and smaller businesses tables compare performance in the quarter and are not annual measures.
- The larger business measures have had an ‘adjustment’ applied to them in line with the Ofcom measurement methodology.
- *Contractual Delivery Date.*
Lines of business continued

Openreach continued

2 Investing for growth

We’ve invested £11bn in Britain’s digital infrastructure over the past ten years, committing over £3bn to create a fibre network that provides affordable high-speed broadband to the vast majority of the UK.

Our ambition is to deliver ultrafast speeds to 12m homes and businesses by 2020 using FTTP and G.fast. Our G.fast technology can deliver ultrafast speeds of 300–500Mbps over existing copper wires with minimal disruption. This technological capability will allow us to offer speeds of over 100Mbps to 10m homes by 2020. After a successful trial we’re rolling out G.fast to 17 locations as part of our pilot deployment phase.

We keep extending, upgrading and maintaining our copper network which underpins most of our services in the UK. We’ve raised preventative maintenance spend by 104% compared to last year and this will make our network more weather resilient in future.

Our new Dark Fibre product will launch in October 2017 (subject to CAT ruling\(^a\)). This will provide a dedicated, unmonitored, unlit optical fibre path between two sites up to 86km apart. CPs can use this to build connectivity solutions.

Investing in our people

We’ve a workforce of 30,400 people, including skilled network engineers and planners who maintain our access network.

This year we invested in hiring over 1,500 people including around 250 apprentices and graduates. Our apprentices are trained on a wide range of skills relating to provision and repair activities to improve customer service. Our graduates complete a variety of project roles in order to learn the business, before taking on roles within our operational teams.

Most of our new recruits, including 50 apprentices, have moved into front-line customer service engineering roles across the country. Another 75 will increase our in-house civil engineer capability. We’re training 100 apprentices on fibre jointing to improve Ethernet delivery and another 65 have been trained on connectorised fibre for our superfast broadband network build.

We also launched our Fibre Academy and showcase to give our apprentices and engineers the training and hands-on experience they need.

3 Transforming our costs

We keep reviewing the way we work, simplifying our business to cut the cost of delivery while improving customer experience.

This year we:

- completed a ‘civils insourcing trial’. As a result we’re now insourcing certain civils activities to improve customer experience;
- consolidated desk-based teams from over 400 locations down to 32 larger ‘centres of excellence’. This will better support the sharing of best practice and create better working environments; and
- cut the number of Ethernet orders awaiting completion by improving our operational processes.

Performance in the year – operating

This year we made our fibre network available to a further 1.1m premises. We achieved 1.8m fibre broadband net additions, with a total of 7.7m homes and businesses in the UK choosing to take a fibre service. We grew our Ethernet base by 13% and exceeded all the increased copper MSLs set by Ofcom.

External CPs accounted for 923,000 of the 1.8m fibre broadband net additions, an increase in share of 4% from last year, demonstrating the market-wide demand for fibre.

The physical line base decreased by 153,000 following a 29,000 increase the year before\(^b\).

Investing in fibre

We keep investing heavily in our fibre network which now passes more than 26.5m premises nationwide.

This year we launched new ultrafast products for SMEs and business parks. Our FTTP network is the largest in the UK and we delivered more FTTP this year than in any previous year.

In May 2016 we launched our offer to connect fibre-to-the-premises for free to all developments of new sites with over 100 plots, then lowered the threshold to over 30 plots\(^c\) in November 2016.

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\(^{a}\) This relates to our appeal to the Competition Appeal Tribunal of Ofcom’s BDNIR market review decision – see page 40. “Other regulatory decisions and activities – Business connectivity market and cost attribution”.

\(^{b}\) Last year’s report stated a 2,000 line increase and this has been amended to include FTTP lines.

\(^{c}\) New sites with over 30 plots registered from 10 November 2016.
Extending our reach
We’re still working in partnership with the BDUK programme to bring fibre broadband to communities who can’t currently access it, completing 39 of our 45 contracts this year. We’re also deploying our Superfast Extension Programme (SEP) in partnership with the Government.

We’re committed to working with local communities to deploy co-funded solutions under our Community Fibre Partnerships programme. To date we’ve worked with over 200 communities, and have over 100 more in the pipeline for upgrades.

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

Review of last year’s priorities

<table>
<thead>
<tr>
<th>WHAT WE SAID</th>
<th>WHAT WE DID</th>
</tr>
</thead>
<tbody>
<tr>
<td>We said we’d achieve our goal of 95% on-time installations by the end of December 2017, ahead of Ofcom’s minimum service level.</td>
<td>We’re on track to hit this RFT goal.</td>
</tr>
<tr>
<td>We said we’d work with Government to help take fibre broadband to 95% of the country by the end of December 2017.</td>
<td>We’ve made our fibre network available to another 1.1m premises this year, bringing the total to 26.5m across the UK.</td>
</tr>
<tr>
<td>We said we’d get ultrafast broadband to 10m premises, with an ambition of 12m, by the end of 2020.</td>
<td>We’ve built ultrafast broadband to 500,000 premises and have more than 98,000 customers, a 77% increase compared to last year.</td>
</tr>
<tr>
<td>We said we’d recruit 1,000 frontline engineers to deliver further improvements in service.</td>
<td>We recruited over 1,500 people, mostly engineers, to enable faster repairs and provide greater contingency. Around 250 of these new recruits were apprentices and graduates.</td>
</tr>
<tr>
<td>We said we’d work to deploy FTTP using microfibre technology.</td>
<td>We’ve introduced connectorised FTTP technology and halved the mean time to provide on our existing network this year.</td>
</tr>
</tbody>
</table>

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

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

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

Performance in the year – financial
Despite around £230m of regulatory price changes, we held revenue flat thanks to strong demand for fibre products.

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>2017 £m</th>
<th>2016 £m</th>
<th>2015 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>5,098</td>
<td>5,100</td>
<td>5,011</td>
</tr>
<tr>
<td>Operating costs</td>
<td>2,465</td>
<td>2,441</td>
<td>2,414</td>
</tr>
<tr>
<td>EBITDA</td>
<td>2,633</td>
<td>2,659</td>
<td>2,597</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>1,369</td>
<td>1,301</td>
<td>1,348</td>
</tr>
<tr>
<td>Operating profit</td>
<td>1,264</td>
<td>1,358</td>
<td>1,249</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>1,573</td>
<td>1,447</td>
<td>1,082</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>1,349</td>
<td>1,415</td>
<td>1,497</td>
</tr>
</tbody>
</table>

Revenue was flat (2015/16: 2% increase) with a 35% increase in fibre broadband revenue being offset by regulatory price drag which had an overall negative impact of around £230m, equivalent to 5% of our revenue.

Operating costs were up 1% (2015/16: 1%) reflecting the investment we made to deliver our copper minimum service levels, halve missed appointments by the end of the financial year and upskill our workforce. We also saw higher service level guarantee costs associated with the delay in fulfilling a number of older and more complex Ethernet orders.

EBITDA decreased 1% (2015/16: 2% increase). With depreciation and amortisation up 5% (2015/16: down 3%), operating profit was down 7% (2015/16: up 9%).

Capital expenditure was £1,573m, up £126m or 9% (2015/16: up £365m or 34%) reflecting our ongoing investment in fibre coverage and speed, and the delivery of more complex Ethernet circuits. This was after gross grant income of £159m (2015/16: £320m) directly related to our activity on the BDUK programme build and offset by the deferral of £185m of the total grant income (2015/16: £227m) due to strong levels of fibre broadband take-up. This is primarily because we increased our base-case assumption for take-up to 39% in BDUK areas and under the terms of the programme, we have a potential obligation to either re-invest or repay grant funding depending on factors including the level of customer take-up achieved.

Operating cash flow decreased 5% (2015/16: 5% decrease) largely due to the timing of BDUK funding receipts and other working capital movements.

Priorities for the year ahead
Over the next 12 months, we’ll continue to invest in our fibre network and ensuring a great customer experience.

Our top priorities for 2017/18 are:

Connecting Britain to the future
– getting ultrafast broadband to 10m premises using G.fast and an ambition to reach a further 2m via FTTP, by the end of 2020; and
– working to deploy FTTP using microfibre technology.

Delivering a great customer experience
– achieving our RFT goal of 95% on-time installations by the end of 2017, ahead of Ofcom’s minimum service level;
– recruiting 1,500 frontline engineers to deliver further improvements in service; and
– driving higher investment in fibre skills and growing our Fibre Academy.

Working with Government and industry
– working with the Government to support its objective for a Universal Broadband Commitment; and
– launching a consultation with industry to inform on future FTTP planning.