

A welcome from our Chairman



My first impressions of BT are that we have great strength in our assets, people and capabilities, and this positions us well to deal with the challenges and opportunities ahead. It is important that we maintain our market leadership and play our part in supporting the UK as a world-class digital economy. As chairman I intend to support our people, engage with our stakeholders collaboratively, and build an even stronger reputation for our company.

Strong first impressions

I am honoured to be chairman of your company, BT.

I would like to take this opportunity to thank my predecessor, Sir Mike Rake, for his ten years of outstanding service to BT. I also want to thank the many people at BT who have made me feel so welcome.

BT is well positioned; we are leaders in fixed and mobile networks, in both our consumer and enterprise markets. We have four powerful brands, and we are financially robust. We have great people with wide-ranging skills and a healthy culture.

That said, this is a complex business; we operate in some tough markets and we have significant challenges ahead. For instance, volume growth in many of our markets is slowing, and we face increasing competition in our consumer, business and wholesale operations.

Initial priorities

It is important to me that we secure investment in integrated networks, the digital infrastructure of the future, and maintain a relentless focus on improving the experience of our customers.

We need to continue to play our part to ensure the UK remains one of the world's leading digital economies. This requires us to invest in new technologies and opportunities; in fibre-to-the-premises (FTTP), 5G, cybersecurity and the Internet of Things.

It is also vital to continue to invest in our people to make sure we have the right skills to take our company forward. In 2017/18, we hired almost 2,400 new engineers in Openreach, and more than 2,500 apprentices and graduates.

At BT we have always looked after our people. My future focus will be to ensure we have a culture that rewards innovation, teamwork, customer orientation, and bold decision making.

And I want to make sure we give customers exemplary service. We have made significant improvements in customer experience across the group, but we are still not where we need to be. This is not just about speed, coverage, or value for money; it is about giving customers the best possible experience when dealing with BT so that they become advocates for our company.

I also believe an important part of my role will be to enhance the reputation of BT. In particular, it is critical that we build and maintain constructive and trusted relationships with government and the regulator.

Key achievements

Your company took a number of significant steps in 2017/18.

We announced a large-scale FTTP deployment, and achieved 90% geographic coverage with 4G. We obtained a good allocation of 3.4GHz spectrum as part of our overall planning for 5G.

We launched ultrafast broadband products with minimum speed guarantees, and we secured another three years of Premier League football at lower cost. We entered into a supply arrangement with Sky that ensures our TV customers will enjoy the best possible content.

We have increasing clarity on key aspects of regulation, with the completion of the wholesale local access market review, the decision by the regulator not to mandate a dark fibre product for the time being, and with the implementation of a new governance structure for Openreach. After a detailed consultation process, and in agreement with our pension scheme members and their unions, we closed the defined benefit pension scheme to further accrual, whilst increasing the company's contribution rates to our main defined contribution pension scheme. In May we also reached agreement with the pension trustee on the 2017 triennial valuation and recovery plan, giving us certainty over the contributions we need to make to support the fund for the next three years.

And we used technology to support communities and society. Under our 2020 ambitions, we work to promote digital inclusion and build skills for the next generation. This year we also helped to raise around £109m for good causes.

Capital allocation and the transformation ahead

Connectivity today sits at the centre of most people's lives and has become critical to homes and businesses alike. Consumption of data and bandwidth continues to expand at ever increasing rates, and at the same time technology continues to evolve as we move from copper to fibre, from 4G to 5G and from analogue to digital.

As the UK's incumbent provider we are determined to lead this transition from old to new technologies, but in order to do so our strategy will need to evolve to provide ever greater focus on our customers' experiences, and on network investment, whilst transforming our operating model to become a lean and agile organisation.

We have a comprehensive transformation programme in place to improve our operational and financial performance in what remains a competitive market environment, and we are increasing our investment to drive convergence and sustain our network leadership. We are confident in our strategy and the benefits we expect from the decisive actions we are taking to strengthen our competitive position.

Given the current market and regulatory headwinds and our investment plans, the Board has decided to hold the dividend unchanged for this year at 15.4p per share. The Board also expects to hold the dividend unchanged in respect of the next two financial years, given our outlook for earnings and cash flow over this period.

The Board remains committed to our dividend policy, which is to maintain or grow the dividend each year, whilst reflecting a number of factors including underlying medium term earnings expectations and levels of business reinvestment.

Board changes

Karen Richardson and Tony Ball will step down from the Board at the conclusion of the Annual General Meeting in July, having served as non-executive directors for six and nine years respectively. I would like to thank Karen and Tony for their significant contribution during their time at BT. We have begun the process of finding successors to Karen and Tony and have appointed external consultants to assist with the search process.

Looking to the future

I am delighted to be working with Gavin, and I know I have the support of a first-class Board. I am also confident we have the right leadership team in place to take our business forward and meet the challenges we face in the years ahead.

The Board has full confidence in the transformation programme that we have put in place. We believe that successful execution of our evolved strategy will serve the long-term interests of all our stakeholders and will ensure that we play our part in keeping the UK a leading digital economy.

Above all, we are confident that it will allow us to build trust and confidence and drive sustainable growth in value for our shareholders.



Jan du Plessis
Chairman

9 May 2018

A message from our Chief Executive



In a challenging year we have delivered on our strategy, made important investments for the future, competed effectively in the marketplace, and made great improvements to the experience we deliver to our customers. Our operational and financial results were overall broadly in line with expectations. We will accelerate our transformation with a three-year plan, and I remain tremendously optimistic about the future for our company and its stakeholders.

Robust business performance in a tough environment

The market environment got tougher in the last year. Volumes have slowed in our consumer businesses, as the markets for broadband, pay-TV and mobile subscribers reach maturity. Our customers responded well to our 'more for more' strategy which focuses on value versus volume as customers upgrade to fibre and 4G.

In our enterprise operations, customers are seeking shorter, more flexible contracts and more digital solutions. Openreach has come under pressure from regulation. Competition – from new entrants as well as established players – remains intense wherever we operate.

Against this, we recorded financial results overall broadly in line with expectations. BT is extremely well positioned in all of its markets; we have met the challenges and taken opportunities in a disciplined way.

Delivering our strategy in 2017/18

Here's how we delivered against the three pillars of our strategy.

Deliver great customer experience.

In 2017/18 we drove the best improvements in our customer metrics for many years. At the group level NPS (Net Promoter Score) was up by 8.3 points and RFT (Right First Time) was up by 4.3%. We reduced network faults by 3.7%, cut installation times for key products like Ethernet (by a third), and installed a record 2.1 million fibre broadband net connections. In BT Consumer we've reduced call waiting times by a minute and complaints to Ofcom about consumer broadband have fallen by 18%. At EE we now cover significantly more of the UK's geography with 4G than any other operator, and we are delighted to have been found by RootMetrics to have the highest quality network, winning the UK Overall RootScore award for the ninth consecutive time. While we are proud of these achievements, we know there is much more still to do.

Invest for growth. We made significant investments across the business in 2017/18. In Openreach we've started the rollout of ultrafast broadband delivering speeds of over 100Mbps with the announcement of the accelerated deployment of FTTP to three million homes by 2020, accompanied by a rapid rollout of Gfast. We believe we will make a return on this initial programme and we want to go further to reach 10 million premises by the mid 2020s, although this will depend on support from the Government and the regulator.

In BT Consumer we have invested to improve customer experience, and also to secure the best possible content for our BT Sport and TV customers. Our continued investments in EE have positioned us as the pre-eminent UK mobile operator, including in network coverage, store formats and online. In our enterprise businesses we've continued to invest to reposition our product set based on digital solutions, unified communications and our mobile capabilities. And our investment in many of our ventures is leading to impressive growth.

Looking ahead, we will continue to invest to secure growth in the medium term. This will include investment in our integrated fixed and mobile networks, fibre, 4G and eventually 5G, and investment to make our network, operations, and product set increasingly digital and converged.

Transform our costs. We have delivered on our existing cost-saving initiatives. Our restructuring programme has removed over 2,800 roles and delivered £180m of savings during the year. And we made good progress with our pension fund. The steps we took include closing the defined benefit scheme to new accruals and agreeing the triennial funding valuation and recovery plan with the Trustee.

Accelerating our strategic transformation

Our performance in 2017/18 has created a platform and position of strength from which to begin the next phase of our strategic transformation. We need to accelerate the process in order to meet the challenges ahead.

We have updated our strategy and will implement a new three-year plan, which we will deliver through three strategic priorities:

- delivering differentiated customer experiences
- investing in integrated network leadership
- transforming our operating model.

We'll create innovative new propositions, improve value for money, offer better service and make it easier to do business with us.

In UK fixed, we'll speed up our investments in ultrafast and in UK mobile we'll expand our leadership in 4G coverage and capacity. We intend to lead the market to 5G too.

We are creating a more lean, agile and flexible organisation with a simpler operating model. We have already brought together BT Consumer and EE – to form Consumer – to be managed and operated as one, with a new set of converged products. And now we're combining our Business and Public Sector and Wholesale and Ventures units to create Enterprise. These are positive changes, designed to transform BT for the next chapter of its history.

We also need to make sure we have the right blend of skills for the challenges and opportunities ahead. We recently announced the creation of 6,000 new roles in frontline engineering, customer service and cybersecurity. More difficult has been the decision to remove 13,000 roles; largely from middle management and back-office functions. We're also rationalising the number of our sites – including plans to exit BT Centre in London.

And we will accelerate the delivery of digital Global Services, by focusing on the leading multinational customers, standardising solutions, strengthening our security services, enhancing our cloud solutions, and divesting non-core assets.

My thanks, and an exciting future

I believe BT is a strong business that is well placed to continue to lead the UK communications market, in converged connectivity and services. The plans we are implementing will ensure our company is more efficient, incrementally productive, equipped with the right skill sets, and better able to meet the challenges and capitalise on the opportunities that lie ahead. Ultimately, we will be able to offer our customers the products and services they deserve.

And, following a number of additions to my *Executive Committee* in the year, I am confident I have a strong leadership team ready to deliver on our transformation programme.

I would like to thank everyone at BT for everything they have delivered over the last year and for their support as we implement the next phase of BT's transformation.



Gavin Patterson
Chief Executive
9 May 2018