

Our strategy

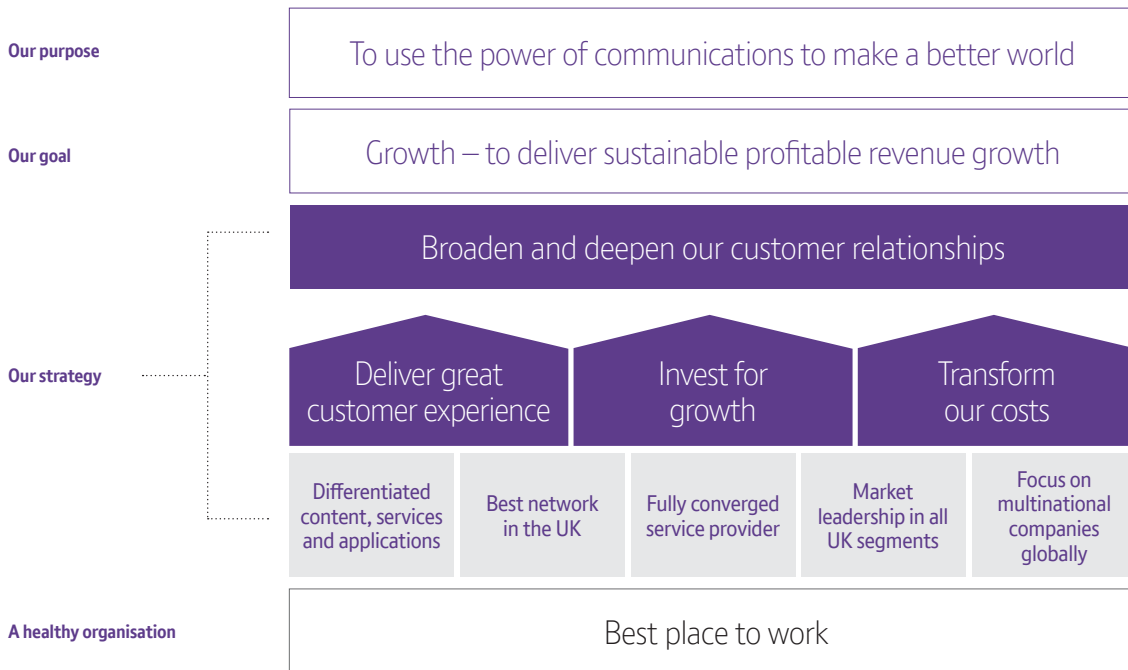
Our strategy in the year had three pillars: deliver great customer experience, invest for growth and transform our costs.

They work together: the better our customers' experience, the more we sell and the less time and money we spend putting things right. And the better we manage our costs, the more we can invest in improving our customers' experience and in products and services that will create growth.

Looking ahead, we're evolving our strategy to build on our strengths and allow us to respond to market opportunities and challenges. You can find more detail on page 28.

Pages 21 to 25 describe our performance against the strategy.

The graphic below shows the main elements of our strategy in the year. You'll find more details on our purpose and goal, in the context of our business model, on page 32.



Our strategy – how we performed

Delivering great customer experience



Customer experience remains central to our strategy and long-term growth – whether that's improving our service levels, providing a more reliable network or introducing new products. We're making good progress but we know there is still much more to do.

We believe that continuously improving customer experience drives growth. That's why progress on customer experience is central to judging the group's performance. We have two main measures of customer experience: customer perception (based on Net Promoter Score) and doing things Right First Time.

How we did in the year

We've built on earlier progress and have delivered seven quarters of continuous growth in customer perception. This year we saw an 8.3 point improvement on last year's result.

Right First Time performance has improved by 4.3%, helped by better planning and resourcing. This means our network has had fewer faults and we've delivered high levels of service despite some terrible weather.

Everyone in BT has a role to play in delivering these results and every CFU has improved its customer perception and Right First Time scores.

We've also seen a drop in complaints made to Ofcom over the last year. EE saw complaints fall to their lowest level while complaints about BT Consumer broadband have fallen by 18%.

What difference did our customers see?

Our customers tell us they expect a reliable service, great networks and products that fit their digital, mobile and 'always-on' lives. We've made progress in all of these areas:

Deliver a consistent and reliable service

- On average we answered calls from BT Consumer customers in 41 seconds, a minute quicker than last year.
- EE won the What Mobile award for Best Customer Support for the third year running.
- We now have more than 600 EE shops including five new 'showcase' stores offering face-to-face chats with advisers and highlighting the best of our network and technology partners.
- Our customers are using our digital channels more, with online chat up 20% this year and more than 2m downloads of the 'My BT' app.
- Openreach achieved all 60 of Ofcom's copper Minimum Service Levels.
- Ethernet performance keeps improving – with delivery times cut by a third since last year.
- We're continuing our transparent approach to performance by publishing quarterly updates on service levels via bt.com and ee.co.uk.

Great customer experience from our network

- We've hired almost 2,400 more engineers into Openreach. We've also improved our resource planning so that we meet network repair targets more than 80% of the time.
- We've continued to weatherproof our networks leading to 3.7% fewer network faults this year.
- BT Consumer customers are now getting faster broadband speeds with average download speeds improving by 20% to 43Mbps.

Products that fit our customers' lives

- BT Consumer launched ultrafast products at 152Mbps and 314Mbps with minimum speed guarantees.
- EE launched a new 4G antenna service that brings superfast broadband speeds to rural areas where fixed broadband is slow or not available.
- A year after the launch of our BT Call Protect service we've protected 2.5m customers by diverting more than 90m nuisance calls.
- And we've launched a new 'BT Business' app for business customers who want to interact with us digitally.

Our strategy - How we performed continued

Investing for growth



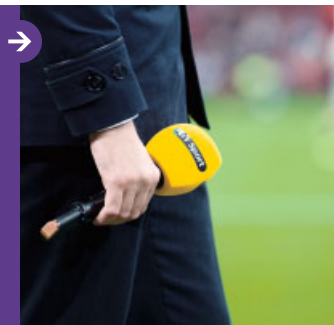
We've been putting money and resources into five strategic areas. Together, they underpin our strategy and our operational and financial performance, which in turn contribute to our KPIs (on page 24).

With good progress on the integration of EE within the group and with a fast-paced digitisation of the UK economy, we've placed a particular focus this year on enabling convergence and on infrastructure leadership as key drivers of future growth.

Differentiated content, services and applications

BT TV / BT Sport
Whole Home Wi-Fi

📖 P74-75



Best network in the UK

27.5m premises passed with fibre

📖 P110



Best network in the UK

1.5m premises passed with ultrafast

📖 P110



Best network in the UK

90% 4G geographic coverage

📖 P83

Fully converged service provider

BT/EE cross-selling



Market leadership in all UK segments

36% share of retail broadband

📖 P73

Market leadership in all UK segments

28% share of mobile market (by subscriber)

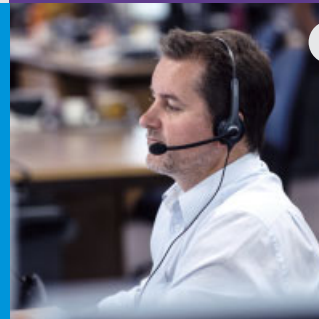
📖 P81



Focus on multinational companies globally

180 countries

📖 P92



Market leadership in all UK segments

Around 30m consumer and 1m business customer billing relationships

📖 P28

Transforming our costs



Our approach

Rigorous analysis, leadership and strong governance help us stay focused on both transforming costs and improving customer experience.

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

Most improvement initiatives are owned and run within individual business units. Our largest programmes span multiple business units or drive complex changes in a single business unit and often need central coordination.

How we did in the year

This year we've increased the cumulative EE integration savings to £290m and we're on track to deliver on our £400 million commitment by the end of 2019/20.

The first phase of our restructuring activities has produced £180m of savings against our commitment to deliver £300 million over two years.

Key achievements included:

- creating more synergies from integrating BT and EE. We've done this by combining functions, making good use of our increased purchasing power, and completing accommodation moves to bring teams together and save money from closing unneeded buildings
- establishing a new unit, Customer and Enterprise Transformation, within the Strategy and Transformation team. The new unit helps us make investments and take decisions that better support our customer experience and productivity priorities
- becoming even more efficient by creating a Central Business Services unit which brings together customer contact management services, contract delivery services, revenue assurance and billing.

Looking ahead

We will continue to deliver against our EE integration and first phase restructuring commitments.

We're also launching new cost transformation initiatives within each individual business unit, as well as some larger cross-business programmes.

The combination of new and existing initiatives will ensure we deliver against our new strategic target of £1.5bn gross cost reduction over the next three years.

Key performance indicators

We hit our financial guidance set in May 2017 for adjusted EBITDA and exceeded it for normalised free cash flow. We fell short of our target for underlying revenue excluding transit due to demanding market conditions and actions we have taken to exit lower margin business in our enterprise divisions. We've achieved our customer experience goal for the year, but want to go further.

Progress against our KPIs

We use four key performance indicators (KPIs) to measure how we're doing against our strategy. Our financial KPIs include: the trend in underlying revenue excluding transit; our adjusted earnings per share; and normalised free cash flow. Customer service improvement is the key non-financial KPI for us.

Our KPIs are chosen because they reflect the key elements of our strategy. We use these to measure the variable elements of our senior executives' pay each year, as we've explained in the Report on Directors' Remuneration (see page 156).

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

You can find reconciliations of the financial measures to the closest IFRS measure in the Additional information section on pages 288 to 290.

Underlying revenue excluding transit

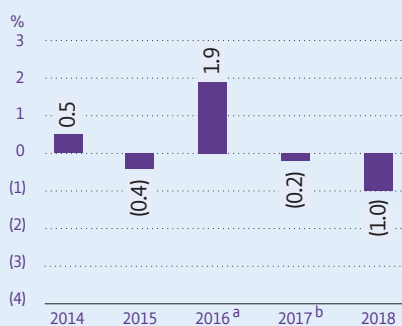
Underlying revenue reflects the overall performance of the group that will contribute to sustainable profitable revenue growth. We exclude the impact of specific items, foreign exchange movements, acquisitions and disposals. We focus on the trend in underlying revenue excluding transit because transit traffic is low margin and is affected by reductions in mobile termination rates, which are outside our control.

Our key measure of the group's revenue trend, underlying revenue excluding transit was down 1.0% (2016/17: down 0.2%) which is below our outlook of broadly flat.

-1.0%

2018 trend in underlying revenue excluding transit

Trend in underlying revenue excluding transit
Year ended 31 March



Performance

Our revenue performance has been impacted by challenges in our enterprise businesses, particularly in Global Services where revenue declined due to ongoing demanding market conditions and lower IP Exchange volumes and equipment sales in line with our strategy to reduce low margin business. We explain more about the performance of our customer-facing units from page 72.

^a Calculated as though EE was not part of the group until 1 April 2016.

^b Calculated as though EE had been part of the group from 1 April 2015.

Customer service measure

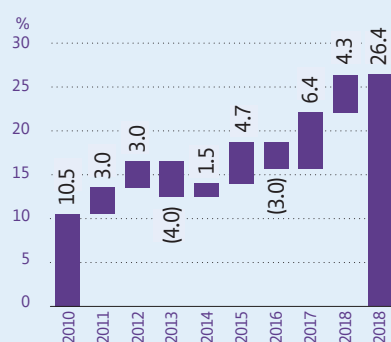
Right First Time is our key measure of customer service. This tracks how often we keep the promises we make to our customers. This could be about keeping to appointment times, completing orders when we agreed or fixing faults within an agreed period. As well as improving service and the customer experience,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

Our customer service measure Right First Time was up 4.3% compared with up 6.4% last year.

+4.3%

2018 customer service measure

Customer service improvement^a
At 31 March



Performance

Improving the service we deliver is key. Our Right First Time measure was up 4.3% (2016/17: up 6.4%). We're making good progress in some areas and every customer-facing unit has improved its Right First Time scores. Despite these improvements, we're looking ahead at improving customer experience further. You can read more about our customer service on page 21.

^a Cumulative improvement from 1 April 2009.

Adjusted earnings per share

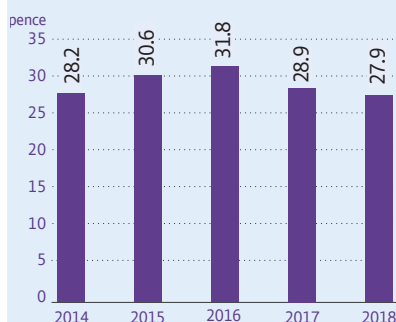
Adjusted earnings per share is the adjusted profit after tax attributable to our shareholders, divided by the weighted average number of shares in issue. Being an 'adjusted' measure, it excludes the impact of specific items and as such it is a comparable consistent way to measure the performance of our business over time.

Adjusted earnings per share decreased 3% to 27.9p compared with down 9% last year.

27.9p

2018 adjusted earnings per share

Adjusted earnings per share
Year ended 31 March



Performance

Adjusted profit after tax decreased 3% to £2,773m this year reflecting our investment in mobile devices and customer experience, along with higher business rates and pension costs, partly offset by cost savings.

Adjusted earnings per share decreased 3% to 27.9p.

The weighted average number of shares in the market was in line with the previous year.

Normalised free cash flow

Free cash flow is the cash we generate from our operations, less capital expenditure and finance costs. It represents the cash available to invest in the business, repay debt, support the pension scheme and pay dividends to our shareholders.

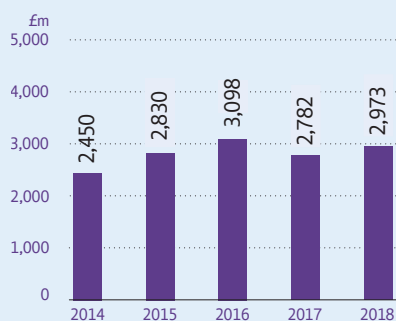
Normalised free cash flow excludes significant non-operational payments and receipts that distort the trend in our cash flow. So in calculating normalised free cash flow we take out the impact of specific items, purchases of telecommunications licences, pension deficit payments and the tax benefit from pension deficit payments.

We generated normalised free cash flow of £2,973m. This was up £191m compared with last year and is above our outlook of £2.7bn to £2.9bn due to favourable working capital movements.

£2,973m

2018 normalised free cash flow

Normalised free cash flow
Year ended 31 March



Performance

The increase of £191m or 7% in our normalised free cash flow primarily reflects favourable working capital movements.

Our non-financial performance as a sustainable and responsible business

Our integrated approach to reporting means that the requirements of the new Non-Financial Reporting Directive are addressed throughout the Strategic Report.

For ease of reference, information pertaining to each of the matters addressed by the new regulation can be found on the following pages: Human rights (page 41); Employees (page 43); Social (page 47); Environmental (page 54); Anti-corruption and bribery (page 57).

Additionally, non-financial matters have long been embedded in our business model as stakeholder outcomes on page 31, and within our principal risks and uncertainties on pages 57 to 70. Non-financial performance indicators are linked to our ambitions and foundation measures as a sustainable and responsible business and can be seen in the table below.

✓ Target met ✗ Target failed > Ongoing

	Our ambitions	2016/17 performance	2017/18 performance	Status	Page
Creating a connected society	By 2020, more than 9/10 people in the UK will have access to our fibre-based products and services	8.8 out of 10 UK premises passed	Ambition superseded: 95% of premises now passed by superfast broadband^a	n/m	47
	By 2020, to help 10m people overcome social disadvantage through the benefits our products and services can bring	3.9m people reached	4.6m people reached	>	47
Creating a culture of tech literacy	By 2020, to help 5m children to receive better teaching in computer skills	1.1m children reached	1.6m children reached	>	48
Supporting charities and communities	By 2020, to use our skills and technology to help generate more than £1bn for good causes	£95m raised for good causes	£109m raised for good causes	>	48
	By 2020, to inspire 66% (two-thirds) of our people to volunteer	Cumulative total: £422m since 2012 31% of BT people volunteering	Cumulative total: £531m since 2012 39% of BT people volunteering	>	45
Delivering environmental benefits	By 2020, to enable customers to reduce their carbon emissions by at least three times the end-to-end carbon impact of our business	1.8:1 achieved	2.2:1 achieved	>	54
	By 2030, to cut our carbon emissions intensity by 87%, compared with 2016/17 levels	n/m (new ambition)	6.8% reduction	>	54

^a including other network operators.

	Our foundation measures	2016/17 performance	2017/18 performance	Status	Page
Investment in society	Investment to accelerate our purposeful business approach; to be more than 1% of adjusted profit before tax (PBT)	1.03% of PBT invested	1.02% of PBT invested	✓	47
		1.08% 5-year average	1.06% 5-year average		
Customers	Customer service: to consistently improve RFT across our entire customer base	6.4% improvement	4.3% improvement	✓	21
Employees	Employee engagement index: to maintain or improve our relationship with our employees	71% favourable	74% favourable	✓	44
	Sickness absence rate: to maintain or reduce % of calendar days lost to sickness	2.32% calendar days lost to sickness	2.30% calendar days lost to sickness	✓	46
	Ethical performance: to maintain or improve our employees' perception of our ethical performance	76% favourable	83% favourable	✓	57
	Ethics training: all employees ^b to complete annual training on our ethics code (including our zero tolerance approach to Anti-Corruption & Bribery)	99.3% trained	99.5% trained	✓	57
Supply chain	Ethical trading: across our supply chain, with focus on human rights. Achieve 100% follow-up within three months, for all suppliers identified as high or medium risk, through our ethical standards questionnaire	100% follow-up within three months	100% follow-up within three months	✓	50
	Renewable electricity: by 2020 to buy 100% of our electricity worldwide from renewable sources, wherever markets allow	77% ^c bought from renewable sources	81% bought from renewable sources	✓	55
	Carbon emissions: by 2030, to reduce our supply chain carbon emissions by 29%, compared with 2016/17 levels	n/m (new target)	6.3% reduction	>	55

n/m - not meaningful.

 To find out more about these measures, our methodologies and how our results are calculated, take a look at [bt.com/deliveringourpurpose](https://www.bt.com/deliveringourpurpose)

^b At least 99.5%, excluding those on maternity, paternity or long-term sick leave or with other extenuating circumstances.

^c 2016/17 energy figures restated - see [bt.com/deliveringourpurpose](https://www.bt.com/deliveringourpurpose) for details.

Our evolving strategy

“Like every chief executive, my job is to create value for shareholders. But what we’re doing differently is creating value in a sustainable way that we can repeat year after year.

BT is uniquely positioned to be a leader in converged connectivity and services. This position of strength will enable us to build on the disciplined delivery and risk reduction of the last financial year and enter an exciting new phase in its transformation.”

What’s our plan?

Our industry is changing and so is our business. We’re building a company which delivers a unique and compelling proposition for our customers – offering the ability to communicate, work, discover, buy, socialise, play, and watch.

It starts with our evolving strategy (see page 28) which is focused on:

- delivering differentiated customer experiences
- investing in integrated network leadership
- transforming BT’s operating model

What’s next?

It’s been a year of disciplined delivery and risk reduction but we know we’re only at the beginning. We’re operating in a demanding environment and we’ve still got plenty to do. So we’re scrutinising and transforming all aspects of our business to deliver the strongest returns and benefits to all our stakeholders.

For our customers...

It means creating a joined-up, reliable and secure network that connects them to everything they need, wherever they are.

For our people...

It means creating roles, teams and workplaces in which they can flourish and develop their skills.

For our shareholders...

It means driving growth in long-term value while maintaining our dividend policy.

For the UK...

It means continuing to play our part in ensuring the UK remains one of the world’s leading digital economies.

This report is about what we’re doing and the investments we’re making. Actions that will help us navigate our challenges and make the most of our opportunities.

I’m really excited to be delivering the next stage of BT’s transformation and have put in place the team that will support me in achieving these objectives.



Our evolving strategy

We have evolved our strategy to focus on converged connectivity and services

Well positioned to drive sustained growth in value

We have a strong set of assets, including a leading position in the UK in fixed and mobile access networks, with strong and clearly segmented brands. We have deep relationships with a wide range of customers including 30m consumers, 1m businesses and around 1,500 multinational corporations. We also enjoy close strategic partnerships with key content, technology, device and service vendors.

Combined, this means that we are uniquely positioned to lead network, product and service convergence across the consumer and enterprise markets, which we see as a critical market trend and an opportunity to drive further value for our business.

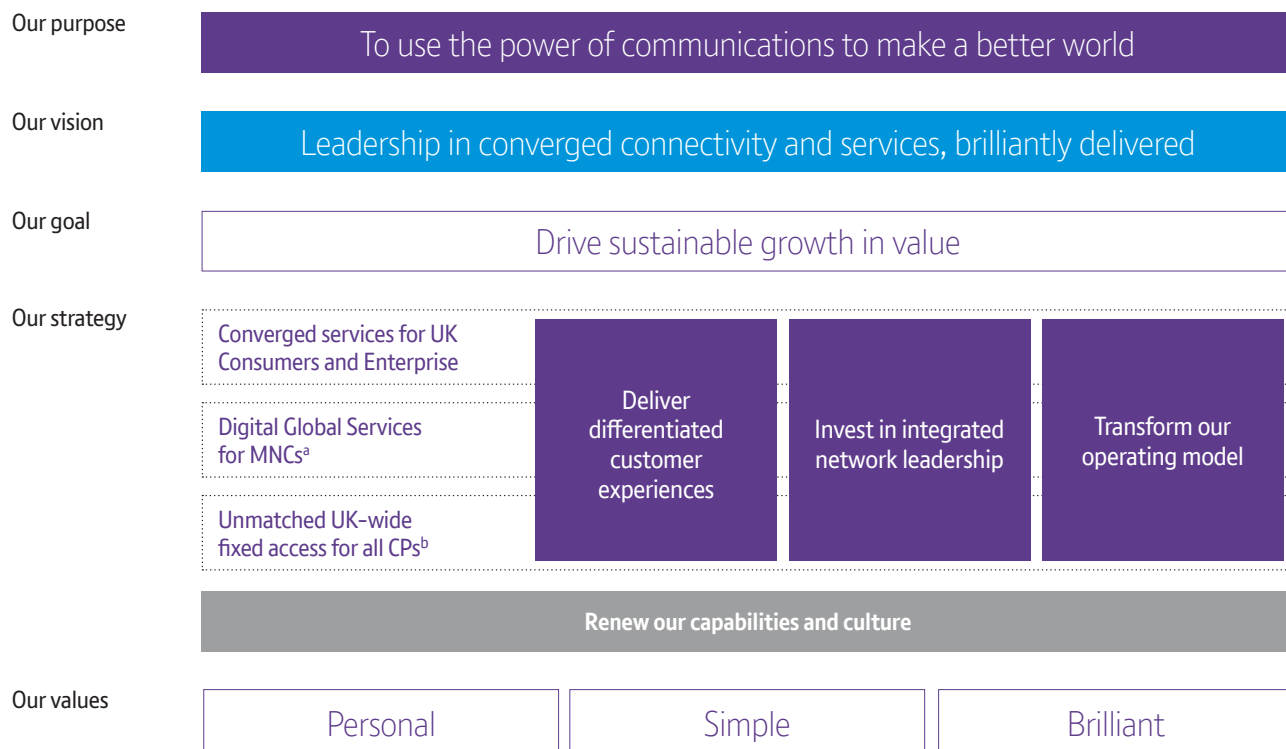
Navigating a demanding environment

Like all businesses, we must continually adapt to our market environment. Data consumption and network capacity requirements are increasing exponentially and our enterprise customers want to migrate from legacy communications products towards digital, converged and secure products and solutions. Competition remains intense across the sector from both established players and new entrants.

We are also seeing a new wave of infrastructure investment in fibre-to-the-premises and mobile coverage and technology. And recent regulatory outcomes are reducing Openreach's returns towards its allowed cost of capital.

An evolution of our strategy

We have evolved our strategy to build on our strengths and allow us to respond to market opportunities and challenges.



^a Multinational customers.
^b Communications Providers.

Our purpose remains to use the power of communications to make a better world. This drives everything that we do.

Our vision is leadership in converged connectivity and services, delivered brilliantly in the UK and for multinational corporations. This highlights our commitment to convergence as a growing category of products and service.

Our goal is to drive sustainable growth in value. This reflects our commitment to balance top and bottom-line growth and to create value from our investment in our integrated network and differentiated products and services.

We will deliver these through three strategic priorities:

1. Deliver differentiated customer experiences

We will further differentiate our propositions, to retain and expand value. We'll do this by creating innovative new propositions, improving value for money, offering better service, and making it easier to do business with us. We've made progress with customer experience in recent years, but there's much more to do.

2. Invest in integrated network leadership

In UK fixed, we'll drive take-up of our superfast network and accelerate our investments in ultrafast through fibre to the premises to 3m homes by 2020 and through Gfast.

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

Ultimately our aim is to build a single, integrated all-IP fibre network. Our investment will allow us to progressively close down legacy products such as the public switched telephone network, lead the market in advanced digital products, improve customer experience, and reduce our operating costs.

3. Transform our operating model

We're creating a more lean and agile organisation, with a simplified operating model, and more straightforward decision-making.

The steps we're taking to achieve this include:

- simplifying our operating model by creating four customer-facing units focused on Consumer, Enterprise, multinational corporations through Global Services and fixed access networks through Openreach
- having fewer, bigger, more accountable leadership roles and simplifying and delayering our management structures
- accelerating the delivery of Digital GS, introducing new digital products with a greater focus on our top global customers
- reducing inefficiencies from being housed in numerous sites across the UK to focus on around 30 modern, fit-for-purpose sites to create a more collaborative, open and customer-focused working culture
- move from buying to strategic sourcing, consolidating our spend and standardising our products
- make better use of digitalisation to improve customer-experience and reduce costs to serve.

These strategic priorities will be tailored to the different **needs of our key customers** in each of our customer-facing units:

- for **UK Consumer** and **Enterprise**, our focus will be on accelerating the development of converged services
- in **Global Services**, our focus will be on evolving towards a more digital proposition and operating model
- **Openreach** will focus on delivering unmatched UK-wide fixed access to all CPs.

Outcomes from our transformation

As a result of our transformation we'll be more efficient, productive, focused, and better able to deliver excellent experiences to our customers. There should be a substantial positive impact on our financial performance, albeit offset in the short term by recent regulatory outcomes: Over three years we're targeting improvements in our customer experience metrics, revenue generating units per customer, converged product penetration and digital interaction with our customers. We'll deliver a three-year reduction of around 13,000 mainly back office and middle management roles, partially offset by new hires to support customer service and network deployment. We expect the programme to cost £800m and have a two-year payback.

Ultimately, we will create a fit-for-future organisation to drive sustainable growth in value for all our stakeholders as the leader in convergent connectivity and service in the UK and for multinational corporations.