

## 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.

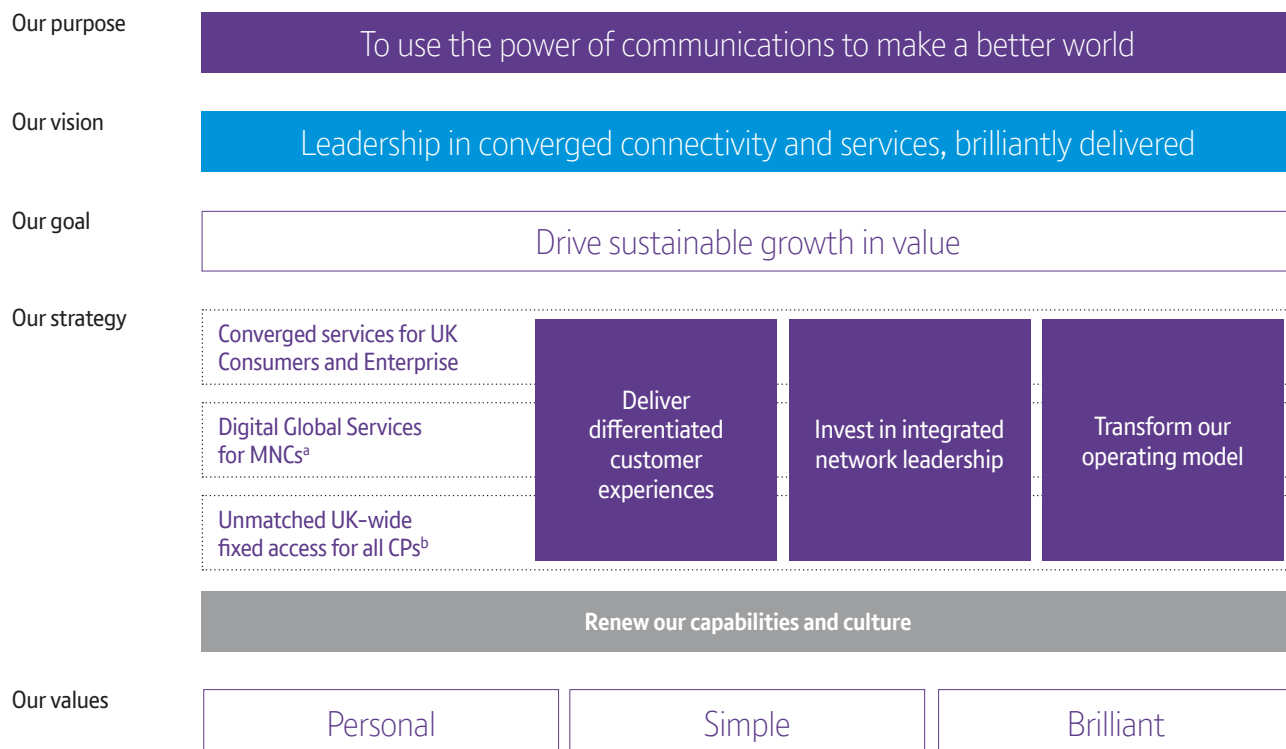
## Navigating a demanding environment

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.



<sup>a</sup> Multinational customers.

<sup>b</sup> 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.