

Our business model

We create value for our stakeholders by developing and selling products and services that are an essential part of modern life.

Who we are

We're one of the world's leading communications services companies. We're based in the UK and serve customers in 180 countries (see page 92).

International Integrated Reporting Council's capitals

This key provides a mapping to the 'capitals' of the IIRC's Integrated Reporting (IR) Framework.

You can find out more at: theiirc.org

- F Financial
- H Human
- M Manufactured
- I Intellectual
- S Social
- N Natural

Find out more:

Our strategy

The main elements of our strategy in the year are on page 20.

This business model section reflects our evolved strategy which is described on page 28.

Our principal risks and uncertainties

We describe our approach to risk management and principal risks and uncertainties on page 57.

Our viability statement

Our directors' assessment of the prospects and viability of the group is on page 71.

Governance

How we govern the group is described from page 131.

Remuneration

The directors' remuneration report is on page 156.

What sets us apart

F Financial strength
We're focused on growing our cash flow over the long term.

£3.0bn
normalised free cash flow generated in 2017/18

H Our people
Their commitment, expertise and diversity are key to our success.

105,800 employees
82,200 in the UK

M Networks and physical assets
We continue to invest in these to improve the experience we offer our customers.

27.5m premises passed by our fibre footprint
90% 4G geographic coverage

I Research and development
We're one of the largest investors in research and development in the UK.

c£510m R&D spend
97 patents filed

S Our culture
'The BT Way' and our values express how we work together and what we expect from our people.

Personal
Simple
Brilliant

I Our brand
Our brands are a key asset.



N Natural resources
We use some natural resources in doing business.

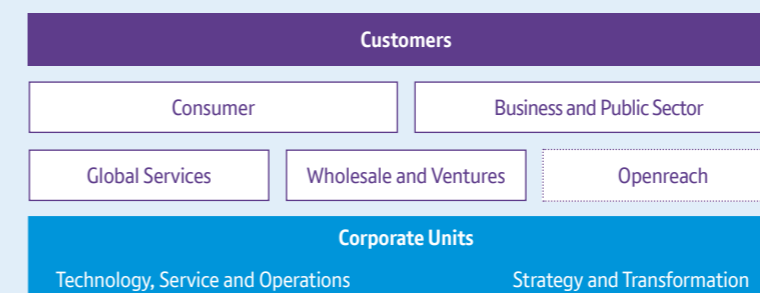
81% of the electricity we buy worldwide comes from renewable sources

What we do

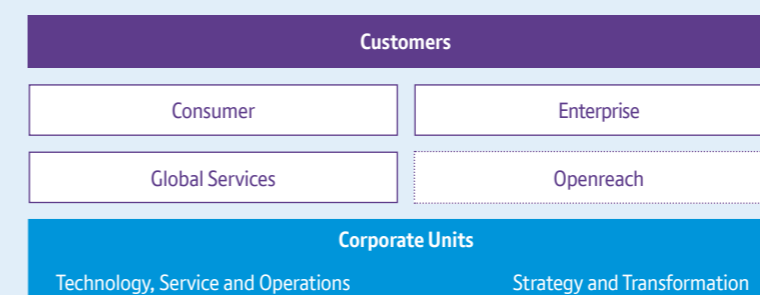


How we're organised

From 1 April 2018



From 1 October 2018



Stakeholder outcomes

Customers

4.3% improvement in Right First Time performance
2.5m BT Call Protect customers

Communities and society

£35.9m investment in society
39% BT people volunteer
£374m UK corporation tax
£109m raised for good causes

Employees

74% employee engagement outcome
86% maternity return rate
11% improvement in accident rate
1% improvement in sickness absence

Suppliers

£13.7bn spent with suppliers
92% with top 1,000 suppliers

Shareholders

10.55p proposed final dividend
15.4p for the full year

The environment

8.9% reduction in CO₂e emissions
1.7% reduction in energy consumption

What we do

This section details our purpose, goal and strategy in the context of our business model. It also explains how we create value for our stakeholders by providing services that are integral to modern life.



Our purpose, goal and strategy

Our purpose

Our business model is built around our purpose, which is as simple as it is ambitious: to use the power of communications to make a better world.

Sustainability, ethics and human rights

To achieve our purpose, we must do business responsibly. That means behaving ethically, respecting people and the environment. We are a signatory to the UN Global Compact principles and we're actively contributing to the UN Sustainable Development Goals.

We have a steering group that oversees human rights governance and policies and we're committed to implementing the UN Guiding Principles on Business and Human Rights.

Every year we publish a statement which sets out our stance on modern slavery and human trafficking. And we don't tolerate bribery or corruption.

Non-financial information reporting

New regulations on non-financial information mean we must report on the following topics:

- P41** Respect for human rights
- P54** Environmental matters
- P43** Employee matters
- P57** Anti-corruption and bribery
- P47** Social matters

There are references to our policies in these areas, along with how we've done against various measures, throughout the Strategic Report. Some of the outcomes feature in the business model graphic on page 31. We've listed others in the summary of our non-financial performance on page 26.

[Read more in our Delivering our Purpose report.](#)

Our goal

Our goal is to drive sustainable growth in value. We'll achieve this by giving our customers a great experience and products and services they value.

Our strategy

To follow our purpose and achieve our goal, our strategy is built around the three pillars outlined on page 29: delivering differentiated customer experiences, investing in integrated network leadership, and transforming our operating model.

They work together. The better our customers' experience, the more we'll sell and the less time and money we'll spend putting things right. And the leaner and more agile we are, and the better we manage our costs, the more we can invest in the business while maintaining a strong balance sheet (page 35). It's a virtuous circle that balances short-term performance with long-term value creation.



Investing in what sets us apart

We invest in building and maintaining communications networks in the UK and overseas. We also invest in differentiated products, services and applications to run over those networks.

Customer expectations are rising all the time. We believe that getting customer experience right is a competitive advantage. So we're investing in our people (eg more contact centre roles, more multi-skilled advisors) and our processes (eg reducing missed appointments).

Some of our investments, like TV sports rights, last just a few years. Other investments, like our fibre broadband network, are much longer term, with pay-back periods of more than a decade.

We have a distinct combination of people, technology, content, networks and other physical assets that sets us apart from competitors. Importantly, we also have the financial strength to keep investing in these areas while balancing short, medium and long-term interests



Providing services integral to modern life

We sell fixed-voice, broadband, mobile and TV products and services to individuals and households in the UK. For businesses we offer communications services ranging from phone and broadband through to complex managed networks and IT services and cybersecurity protection. Many public services rely on our technologies and in the UK and Ireland we help other communications providers to serve their own customers. And underpinning all this, we provide the connectivity that's essential in a digital economy.

There's growing demand for a lot of our products and services because they play such an integral role in modern life. And we'll benefit as customers use more digital services and increasingly want value, reliability and consistent service.

Market context

Consumer broadband continues to switch to fibre, to meet customers' demands for higher bandwidth. Meanwhile people are making fewer landline calls, replacing them with mobile phones, voice over IP or instant messaging. In mobile, there's continuing growth in data use – and postpaid subscriptions are growing at the expense of prepaid.

At the same time, SIM-only tariffs are becoming more popular because people are keeping their phones for longer. In TV, there's growth in subscription video-on-demand (SVoD), largely as a complement to pay-TV services. And customers are increasingly using digital service channels, like apps and online chat, to interact with their service provider. Business customers are using landlines, leased lines and traditional voice services less as the market moves to data and IP voice. Other growing areas include cloud services, hosting, security and data protection. Business broadband is switching to fibre. And Ethernet and dedicated internet access services are also becoming more widespread as businesses rely more and more on connectivity.

'Digitalisation' or digital transformation is now a top priority for many businesses, particularly multinational corporations. It's not an end in itself. But it does help companies achieve objectives like transforming costs, operating more efficiently or improving customer experience. Our Cloud of Clouds strategy (page 94) positions us well to be a trusted partner in our customers' digital future.

We aim to be the UK's leading converged operator – bringing together our fixed and mobile network assets to make sure our customers are always connected to the best possible network, and selling converged propositions that offer much more than simple 'bundles'. We're uniquely placed to do it – with the brands, scale and breadth of capabilities to benefit from convergence.

Our strategy puts us in a strong position to drive, and benefit from, these market trends. You can find out more in the customer-facing unit sections from page 72.

Channels to market

We sell our products and services through our customer-facing units.

We do it through a range of channels including online, contact centres and account managers. We also have around 600 EE stores in the UK.

Multibrand strategy

We have three retail brands (page 39). They let us serve different sectors of the market and lead to higher consideration by potential customers when they're deciding whether to buy from us or one of our competitors. Add to that the cross-selling between our retail brands and we have an opportunity to sell more to more people.

Diverse revenue streams

Our revenue mostly comes from subscriptions or contracts. Individuals, households and SMEs pay for standalone or bundled services, typically on 12- to 24-month contracts. 'Pay-as-you-go' mobile services are also available.

Large corporate and public sector customers usually buy managed networked IT services on contracts spanning several years. Wholesale customer contracts range from one month for regulated products, to five years or more for major managed services deals.

Other sources of revenue include our ventures (page 100), consultancy, device sales and advertising (online, BT Sport TV channels and InLinkUK kiosks).



Creating value for all our stakeholders

What we do, matters – to millions of people. We help them communicate, enjoy entertainment, do business and generally live their lives. And we contribute directly to communities and the health of the UK by providing jobs, supporting suppliers, paying tax and encouraging our people to volunteer.

Sustainability is integral to our purpose and the value we create. We're committed to using 100% renewable electricity (where markets allow) and we're encouraging our suppliers, customers and people to do the same. At the same time, our products and services are helping to tackle climate change.

Our business generates emissions. From our operations, supply chain, and through the energy our customers use to power our products. But we're contributing to a lower-carbon economy by cutting our own carbon footprint and helping customers cut theirs. The emission savings for our customers outweigh our own footprint. This means we're a 'net positive' business (see page 54).

From a purely financial perspective, our carbon-saving products and services contribute £5.3bn revenue to our business^a.



Oversight and governance

The markets we operate in are dynamic and very competitive, particularly the UK. There are many risks and opportunities, so it's important that our strategy and business model are flexible and sustainable. To help us we:

- have a risk management framework to identify and mitigate the challenges we face (page 56)
- use insight teams to keep us in tune with market drivers and customer expectations
- talk and listen to our stakeholders to understand what's important to them
- use governance committees to ensure we're making the right investments and investing with discipline.

Together, these things help us anticipate and respond to changes in our markets including macro events like Brexit and the prospect of the UK leaving the single European market.

We know we can deliver value over the short, medium and long term. It's this confidence that underpins our assessment of the future prospects and viability of the group (see page 71).

The Design Council and BT Investment Board

The *Design Council* was a sub-committee of our *Operating Committee*. It was responsible for making sure capital investments in our networks, systems, platforms and products reflected our strategy, served the needs of our customers and were delivered cost-effectively. The *Design Council* was dissolved in October 2017 following the creation of the *Executive Committee* (page 18).

From December 2017 the *BT Investment Board* has been responsible for providing input and recommendations to support the chief executive on major capex and opex decisions (see page 133).

^a The list of our carbon-saving products and services is established and verified by Carbon Trust; the associated revenue is based on total external sales, independently verified by Lloyd's Register.