Our approach to risk management

Like any business, we face a number of risks and uncertainties. Some come from outside our organisation, others from within. Some we can't control, some we can. Many of our risks are similar to those felt by similar businesses.

Principal risks and uncertainties

The principal risks and uncertainties that affect us could have an impact on our business, brand, assets, revenue, profits, liquidity or capital resources. The principal risks we described last year have evolved, and so has our response to them.

Our Enterprise Risk Management framework gives reasonable (but cannot give absolute) assurance that we've identified and addressed our biggest risks. However, there may be some risks that are either currently unknown, or currently seen as less important but with the potential to become more so in the future.

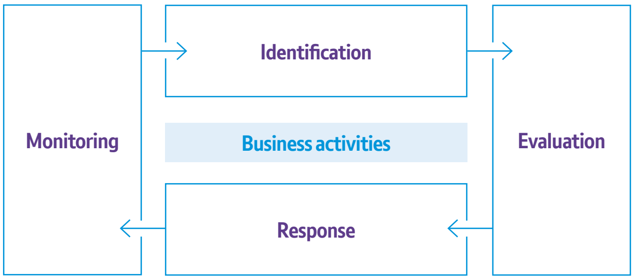
Events outside BT present both risks and opportunities. We focus our efforts on predicting and reducing risks while aiming to take advantage of any opportunities that may emerge.

We recognise the uncertainty that political and geopolitical risks present, and have continued to operate a specific Brexit programme across BT that looks at how we might be affected and what our response should be. This programme is keeping a close watch on developments, and reports to a steering group chaired by our group CFO.

In the section below, we explain what we're doing to prevent our main risks from materialising, or to limit their impact if they're unavoidable. Our biggest risks and uncertainties should be considered alongside the risk management process, the forward-looking statements in this document and the associated cautionary statement (see page 296).

How we manage risk

To meet our objectives, build shareholder value and promote our stakeholders' interests, it's essential we manage risk. To help us, we've developed a group-wide risk management process with four stages:



Changes over the year

In 2016/17 we improved the way we manage risk through focusing on risks to our investment cases, developing an enhanced approach to root cause analysis, and identifying new ways to share good practice across the organisation. Specific further improvements this year included:

Three lines of defence

We've revisited our three lines of defence model (our approach to governing and assuring our business) and how we apply it to our key areas of risk. This has helped us identify areas where we can optimise our assurance. We're also developing training around the three lines of defence to help our people better understand the model and how they support it.

External benchmarking/Internal review

We've been reviewing our risk management arrangements, using some external benchmarking and discussions with key internal stakeholders. This has helped highlight areas of strength and also areas where we can develop further. We'll be addressing those findings next year.

Real-time war gaming

We've continued our cycle of war gaming during 2017/18, and this year also tested a crisis scenario in real time. This exercise involved numerous colleagues from across the business and the learnings will help us become more resilient to future events.

Enterprise risk framework

Customer-facing unit and TSO audit & risk committees

↓

Customer-facing unit and TSO leadership teams
Our customer-facing units and TSO follow our process for managing risk as part of our Enterprise Risk Management framework. That means identifying and responding to the key risks affecting their business. They record the risks for their leadership teams to review. Audit & risk committees in each customer-facing unit, TSO and our group functions, make sure this process is effective.

Group Risk Panel
The Group Risk Panel supports the Board and the *Executive Committee*. Every three months it reviews the Group Risk Register (which summarises those risks of greatest significance across our business), considers the inclusion of new or emerging risks, and recommends ways to tackle them. It also oversees the work of the group risk management function.

Executive Committee
The *Executive Committee* identifies, evaluates, responds to and monitors risks. Significant risks are reported and monitored through the Group Risk Register. The *Executive Committee* assigns a management owner to take charge of monitoring and managing each risk. It monitors risks through regular detailed reviews as well as six-monthly reviews of the Group Risk Register.

Audit & Risk Committee

↓

Board
The Board has overall responsibility for making sure we manage risks appropriately. It regularly reviews, either directly or through the *Audit & Risk Committee*, how we're doing across the group, in our customer-facing units and in TSO.

Our principal risks and uncertainties

Compliance risks

Trend indicates our perception of pre-mitigation risk
- Increasing/worsening
- Lessening/improving
- At a similar level

Significant control failure

Link to strategy in year	Link to business model	Trend
1 – Deliver great customer experience 2 – Transform our costs	F – Financial capital H – Human capital S – Social capital	At a similar level

It's crucial that we maintain high ethical standards. We respect human rights and we don't tolerate fraud, bribery, any form of corruption or any illegal or unethical activity.

We follow local and international law, including anti-corruption and bribery laws. The UK Bribery Act and US Foreign Corrupt Practices Act (FCPA) have extraterritorial reach, so cover our global operations. We also have to make sure we follow trade sanctions and import and export controls. We comply with the Modern Slavery Act and follow international standards on human rights, such as the International Labour Organisation's Principles and the UN Guiding Principles on Business and Human Rights.

We also face the risks associated with inappropriate and unethical behaviour in local and other markets by our people or associates, such as suppliers or agents, which can be difficult to detect. There is also a risk that our controls, which are designed to prevent, detect and correct such behaviour, may be circumvented. Controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions, regardless of how remote.

Financial controls, and the assurance that exists over them, play an important part in our ability to prevent and detect inappropriate behaviour. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Potential impact

If our people, or associates like suppliers or agents, breach anti-corruption, bribery, sanctions or other legislation there could be significant penalties, criminal prosecution and damage to our brand. This could have an impact on future revenue and cash flow depending on the nature of the breach, the legislation concerned and any penalties. If we were accused of corruption, bribery, human rights abuses, violating sanctions regulations or other laws, it could lead to reputational damage with investors, regulators, civil society and customers. A breakdown in our financial control framework could result in financial misstatement.

What's changed over the last year?

We've seen an increase in Speak Up (BT's confidential hotline service) reports and conflict of interest registrations. In 2017/18 Speak Up reports increased by 63% on the previous year. This is indicative of a culture where people are more aware and confident to tell us about their concerns.

In terms of anti-corruption and bribery enforcement generally, we've continued to see a steady flow of significant cases from both the UK Bribery Act and the FCPA. In the US 11 companies paid a total of $1.92 billion to resolve FCPA cases in 2017.

There's also been an increase in legislation (either enacted or proposed) to address and report on human rights abuses by companies.

How we're mitigating the risks

This year we've implemented a major programme of work to strengthen our controls and compliance activities, and ensure awareness of the standards we expect. Following the identification of inappropriate behaviours in our Italian business in the summer of 2016, we have also implemented wider controls that monitor our overseas operations in our shared service centres, Global Services and at a group level, see page 145.

We've redefined and communicated our three lines of defence model, and strengthened our controls policies and procedures. This covered both financial and non-financial controls, and we've re-mapped our assurance coverage across the three lines of defence for our principal risks and uncertainties. This helped us identify opportunities to improve our controls policies and procedures, as well as to extend the assurance that operates over the controls. We're also building awareness and understanding, and all finance employees have completed Financial Statement Fraud awareness training, including a module on how to escalate concerns.

We've also put a number of other controls in place to address risk in this area. These include an anti-corruption and bribery programme and 'The Way We Work', our ethical code, available in 14 languages. We ask all our people to complete training and sign up to The Way We Work which includes our zero tolerance to bribery and corruption. We've developed a new guide this year, 'The BT Way', which brings together for our people how we're organised and deliver for our customers, our ethical code and our values.

We have policies covering conflicts of interest, gifts and hospitality, charitable donations and sponsorship. We also run tailored training for people in higher-risk roles like procurement and sales.

We regularly weigh up our business integrity risks to make sure we've got the right mitigation in place. We've introduced an Ethics & Compliance Integrity Risk Dashboard. It brings together various indicators to better identify possible emerging trends or particular hotspots. The approach draws together various themes to look for patterns and establish any outliers across our business.

All Speak Up reports are passed to the director of ethics and compliance for action. Our confidential hotline is operated by a third party and is available to employees and third-party contractors who can remain anonymous if they choose to. Any reports received direct by BT are also dealt with in accordance with our Speak Up procedures.

Our internal audit team regularly runs checks on our business. External providers also assess areas we think are higher risk (such as the use of agents), to make sure people understand our policies and that controls are working. We do due diligence checks on third parties like suppliers, agents, resellers and distributors. In 2017/18 we completed 32 reviews of our existing agents resellers and distributors. We take a risk-based approach to these reviews, which include external reviews, internal on-site reviews and desk-based reviews. Our procurement contracts include anti-corruption and bribery clauses. In addition all new suppliers, agents, resellers and distributors go through an on-boarding process which includes financial checks and the use of our due diligence screening tool. Existing suppliers, agents, resellers and distributors are additionally screened on a weekly basis.

Our sanctions policy helps us keep track of trade sanctions and export controls that apply to us. That means all bids involving a country which is subject to our sanctions policy requires approval. The policy also mandates everyone in BT to use our internal shipping system to arrange international exports, as it runs compliance checks and flags any orders which need an export licence.

We launched a customer due diligence tool which we use when bidding for customer contracts. It identifies human rights risks and links them to the sanctions approval process. We've run training and calls to raise awareness of the tool. We've also carried out human rights impact assessments on our operations in India, Russia and China, and have developed an overarching human rights policy for imminent launch. We reported publicly on our most salient human rights risks in our Privacy and Free Expression Report in 2015, which we're updating in 2018 to include parts of our international business. Our Human Rights Steering Group reviews our programme and discusses current issues. We've also been working closely with peers through organisations like the Business Against Slavery Forum and Global Network Initiative.

Despite our efforts, unfortunately not everyone gets it right every time. We disciplined 205 employees in the UK as a result of ethical misconduct this year, and 98 left the company[a]. The most common issues related to inappropriate use of company vehicles.

Processing our customers' data

Link to strategy in year	Link to business model	Trend
1 – Deliver great customer experience	(F) – Financial capital (S) – Social capital	^

We control and process huge quantities of customer data around the world, so observing data privacy laws is something we take extremely seriously. It's essential that individuals and businesses can trust us to do the right thing with their data.

We make sure our customers' data is secure, and protected against both internal and external threats (eg cyber attacks). Being trusted with our customers' data goes further than that though. It means preserving the integrity of the personal data we process, and only keeping the things we need to provide customers with the services they've signed up for. It also means being transparent around how we use customer data, who we share it with, making sure the way we process personal data is legal, fair and in line with customers' rights and wishes, and ensuring that we fulfil the legal obligations we have when customers want to exercise their rights under data legislation.

As a communications provider we currently operate under a stringent reporting regime to tell the UK Information Commissioner's Office (ICO) if we become aware of a personal data security breach. We must also tell any affected individuals as quickly as possible if the incident is likely to have a significant impact on them. On 25 May 2018 EU General Data Protection Regulation (GDPR) will come into force. We are in the process of implementing more stringent procedures around data protection in order to comply with the GDPR requirements, which may lead to higher regulatory compliance costs.

An individual's fundamental right to privacy is reflected in the fact that data privacy laws are in force in more than 100 countries. The nature of those laws vary across different parts of the world. Increasingly we (and other multinationals) have to show that we're handling personal data in line with a complex web of national data laws and society's ethical expectations.

Potential impact

Failing to stick to data protection and privacy laws could result in regulatory enforcement action, significant fines, class-action, prison sentences and the regulator telling us to stop processing data.

On top of that, we could see huge reputational damage and big financial losses. Those losses could come from fines and damages if we fail to meet our legal requirements, as well as costs resulting from having to terminate customer contracts and the subsequent customer churn. Companies who've had high profile data incidents have seen a significant impact to their share price and suffered ongoing costs from their non-compliance.

What's changed over the last year?

The GDPR is deemed one of the biggest shake ups in data law for over a decade. It's been created to update the existing law to ensure that individuals' data is protected and secured and gives people a greater say as to how their data is used. It also increases their rights as to how their personal data is kept, used and retained by businesses. The sanctions for breaching the GDPR are significantly higher than under the previous regime, which could result in a substantial fine in the event of a breach.

Scrutiny from national regulators is increasing as companies are monitored to ensure they're working towards compliance with the new law. In addition within the last 12 months several large companies have suffered further well-publicised data incidents and the general trend towards bigger financial penalties has increased.

How we're mitigating the risks

We've created a compliance programme to review all activities that involve customer data across the business in light of the new regulatory requirements. Our focus will be on protecting our systems, enhancing our operational processes to protect customer data, and refreshing our training so that our people understand the importance of the data they handle.

We also want to give our people the tools they need to make everyday risk-based decisions around privacy and data protection without it being a burden or making their job more complicated. If we do that, there's a much better chance of data compliance becoming 'business as usual'. For example, using Privacy Impact Assessments when we develop new products and services makes

[a] UK only, excluding EE and Plusnet.

sure everyone understands privacy issues from the start and builds in the right controls, without any operational impact.

The Chief Privacy Officer and her team champion privacy awareness, and are responsible for undertaking monitoring and assurance to make sure data compliance is embedded within the business.

Our mitigations against cyber attacks are described in our Security and resilience risk (page 66).

Health, safety and wellbeing

Link to strategy in year	Link to business model	Trend
1 – Deliver great customer experience 2 – Transform our costs	F – Financial capital H – Human capital S – Social capital N – Natural capital	

Our people are crucial to our business and if they feel safe, healthy and happy they will perform better for our customers and our shareholders. Working to reduce the risk of harm to our people helps us comply with health and safety laws wherever we operate.

Many of our people, especially our UK engineers, work for much of the time in community settings where we have limited control over the working environment. Much of the network is carried above ground level and temporary work at height is a major risk for us – over the course of a year our people will undertake millions of climbing jobs. All of our people work in a fast-paced and highly competitive sector where change is constant and psychological pressures are significant. Managing physical and psychological hazards is therefore complex.

Potential impact

We work to make sure our people go home safely every day. Any health and safety failure could result in injury to our people or members of the public, financial penalties, and/or reputational damage.

The wellbeing of our colleagues is important if we're to transform our business while continuing to recruit, retain and engage our workforce to deliver a great customer experience and grow the business. An adverse reaction to change could impact talent retention, resulting in a loss of critical skills and greater need for external recruitment, which would add cost to the business. Poor engagement also raises the risk of general industrial unrest and action.

What's changed over the last year?

Changes in technology and working practices help to reduce the physical risks to our people. For example, the shift from copper to fibre in the network means our work involves less heavy manual labour, reducing the risk of musculo-skeletal disorders as a result. Conversely, people increasingly seek to attribute common health problems to past work activity with the aim of securing compensation, and the regulatory environment is getting harsher.

In parallel, a change in our workforce is increasing risks in areas such as driving. We've had a mature workforce with little labour turnover for many years. That cadre is reaching retirement age at the same time as demand for our products and services is increasing, and so we're recruiting large numbers of younger people. The new intake has a different risk attitude, combined with less experience, so we need to make sure we put in additional safeguards with less reliance on expertise and individual judgement.

The pace of upgrading the network, fixed and mobile, has continued to accelerate. That increases our civil engineering workload and the hazards and risks associated with that type of work. The Grenfell Tower fire has raised awareness of fire issues – we've reviewed cladding across the BT estate and we're examining a range of other aspects of fire safety.

The pace and scale of change within the business has also continued to accelerate and we're aware this has a psychological impact on our people. The risk of epidemic disease is constant; this year our main focus has been on pneumonic plague and influenza.

How we're mitigating the risks

We've got a companywide and Board-endorsed health, safety and wellbeing strategy which has been refreshed this year. The Board receives a bi-annual report which tracks key performance indicators and which forms the basis of a discussion of emerging issues. The strategy is cascaded through the chief executive to the operational businesses, each of which formulates its own plans and targets on an annual basis.

At an operational level, our managers take responsibility for making sure their teams know how to comply with health and safety standards. We monitor compliance using annual licensing, scheduled refresher training, competency assessments and accreditation processes for higher-risk groups. All our people undertake training in basic health and safety. Progress is monitored by a companywide health, safety and wellbeing forum chaired by the Group HR Director. Professional input is provided through a central centre of expertise which supplements advisers in the operational units.

This year we've completed a liability review and a material controls audit, both of which highlighted competency, accreditation and assurance as areas for attention. We're undertaking a comprehensive revision of our health and safety training, with an emphasis on higher-risk activities. We make sure that training is externally accredited where possible and we're extending the accreditation of our management systems where appropriate. We've adopted a three lines of defence approach and we're enhancing our first and second lines of assurance as a result of audit recommendations. We're procuring a new IT system which will help us better capture and share information.

We provide comprehensive support to our people to enhance their wellbeing. We provide extensive guidance on promoting good physical, psychological and emotional health. We launched this year a major programme on healthy change management. We train our managers to identify the early signs of distress and how to deal with them. This year we've supplemented that with a peer support scheme that uses our peoples' experience of mental ill health to help their colleagues. We provide funded treatment services for mental health and musculo-skeletal disorders and have achieved a 95% rehabilitation rate.

Competition and technology risks

Link to strategy in year	Link to business model	Trend
3 – Invest for growth	Ⓕ – Financial capital Ⓘ – Intellectual capital	^

Our markets are characterised by intensifying competition from established players and new entrants. This competition compounds some of the external challenges that we see in the market place, notably:

- fixed broadband and mobile connectivity nearing saturation, with most segments of the UK telecoms markets now growing below the rate of inflation
- customers seeking fast migration from higher-margin legacy products to fully digitised, converged, secure, faultless solutions
- efficient markets demanding clear differentiation for premium pricing, driving price deflation of basic connectivity and data
- high exit barriers, prolonging and intensifying competition even when selected companies in the sector are struggling to generate economic returns.

Technology change is also a key characteristic of our sector. We need to be able to identify emerging technologies, assess how customers will adopt these technologies, and invest accordingly, frequently a long-time before the demand materialises. We also need to respond to changes in the use of existing technology, such as the exponential growth the sector has seen in data consumption and network capacity requirements.

Potential impact

Intensified competition can result in lower volumes and/or prices than we currently forecast. If we do not respond effectively to competition then we can lose market share, revenue and/or profit.

In addition, new technology developments can lead to accelerated obsolescence of our current products, increased investment requirements, new sources of competition and/or the deterioration of our competitive position. This in turn can result in lower volumes and prices, stranded assets and higher costs. A failure to invest optimally in technology today can have implications for our market position and ability to generate future returns.

What's changed over the last year?

Set against a challenging economic climate, in which the outlook for the UK economy has deteriorated, our leading competitors have been very active over the last 12 months. Important developments included:

- a move into fibre through a partnership with an existing provider
- expansion of existing UK fibre networks
- the launch of 'zero-rated' mobile data propositions.

Technological developments and changing customer preferences also continue to create risk to our business model. For example:

- While mobile data usage continues to grow, prices per gigabyte of network traffic have continued to fall. The ongoing profitability of our mobile operations hinges on our being able to successfully monetise mobile data growth in the face of strong competition.
- Support for a large-scale deployment of FTTP infrastructure among key stakeholders has increased. However, there is still material uncertainty as to whether a viable economic case can be found for large-scale deployment. The economic case for FTTP remains challenging given superfast broadband coverage now exceeds 90% and the majority of end users are currently only willing to pay a low premium for additional speeds.

How we're mitigating the risks

We've evolved our strategy to reflect this environment, with renewed focus on:

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

We believe this is the best way for us to stay ahead of our competitors and to generate long-term, sustainable value growth. We're also working with stakeholders to help develop an environment that both encourages and facilitates investment in a large-scale FTTP environment.

We also keep a close eye on technology developments that could impact us achieving our strategic goals, including through our Board Technology Committee. This committee, chaired by the CEO, agrees our technology strategies, monitors emerging trends and oversees technology risk management across the group.

Communications industry regulation

Link to strategy in year	Link to business model	Trend
1 – Deliver great customer experience 2 – Transform our costs	(F) – Financial capital (M) – Manufactured capital	^

Regulation affects much of what we do.

In the UK, where Ofcom identifies competition concerns in communications markets, it can set rules requiring us to provide certain services on specified terms to our customers. Ofcom reviews markets regularly and can introduce, extend, relax or remove rules as a result of its findings. It has powers to conduct specific investigations about market behaviour, including price levels. In addition, Ofcom can set out rules for spectrum auctions and to ensure consumer protection in the sector.

Ofcom will investigate our compliance with regulatory requirements and can impose fines and restitution on us if we fail to comply.

Following the Government's rejection of our voluntary commitment, a broadband universal service will now be delivered through a regulatory obligation. We acknowledge the impact that this will have on industry and the risks attached to a regulatory broadband USO. We will work hard with Ofcom to find a solution that works for our customers and society, and that minimises the distortions for industry.

Ofcom also has powers to regulate the terms on which we're supplied with certain services by others – for instance, mobile call termination – and can sort out disputes between us and other communications providers about the terms on which services are supplied. Appeals of regulatory decisions also give rise to risks (and opportunities).

Outside the UK, regulation defines where and how we are able to compete through licensing rules and defining the terms on which we are able to access networks of incumbent operators.

Potential impact

Some of our revenue comes from supplying wholesale services to markets where Ofcom has found us to have significant market power. Most of this revenue relates to services where regulation requires us to cut average prices each year by a specific, real-term percentage for a three-year period.

Where other telecoms providers ask Ofcom to resolve disputes with us, there is a risk that Ofcom may set the prices at which we supply services, make us provide additional services and/or impact how we structure our business. In some circumstances, Ofcom can adjust past prices and make us pay back amounts to wholesale customers.

Regulation outside the UK can hit our revenue too. For example, overly-restrictive licensing requirements or ineffective regulation of access to other networks mean we might not be able to compete fairly. Regulation can also define and control the terms of access to necessary regulated inputs, which raises our costs.

What's changed over the last year?

Ofcom has concluded market reviews in relation to wholesale narrowband access, wholesale local access and wholesale broadband access. They have also decided not to impose a temporary remedy requiring BT to provide a restricted form of dark fibre (at and below 1Gbit/s) in the leased lines markets, but will consider this again in their upcoming business connectivity market review. We have summarised this on page 52.

We successfully appealed Ofcom's Business Connectivity Market Review (BCMR) statement to the Competition Appeal Tribunal which found in our favour and remitted the decision back to Ofcom. It has also started its next market review on BCMR.

In the retail market, Ofcom also expressed concerns in relation to the prices charged to voice-only customers. We've responded to Ofcom's concerns by agreeing to cut those prices. We've also introduced an automatic compensation scheme for slow repairs, missed appointments and delayed installations. Ofcom has also revised the General Conditions and the changes will come into force in October 2018.

Alongside the standard cycle of market reviews, we've been working hard to deliver on the Commitments made to Ofcom in March 2017 as part of its Digital Communications Review. We've made significant progress in this area, and have now introduced changes to our internal processes to ensure that we comply with both the letter and spirit of the commitments.

How we're mitigating the risks

We have a strong team of regulatory and policy specialists. Together with legal experts, compliance and operational teams they guard against potential risks and look for opportunities to positively shape the regulatory regime at the right time and in the right way. They engage regularly with regulators, government, consumer organisations and other key stakeholders to build trust and to understand their outlook. They communicate our positions in a clear, consistent and straightforward way. Their insight also helps us to forecast future regulatory outcomes. We can then build sensible assumptions into our financial plans and investment decisions.

We push for clear, predictable and proportionate regulation that enables BT to succeed by delivering what customers and society want. Whenever there are market reviews, charge controls, disputes or investigations, we submit evidence and analysis. This helps us manage the risks around decisions in any particular year.

We can judicially review regulatory decisions and appeal to the Competition Appeal Tribunal. We can also raise disputes or complain (under the relevant regulatory framework or competition law) where we have problems getting access to wholesale services or to other access networks.

We're also working hard to deliver a great customer experience, going beyond our minimum regulatory obligations.

Political risk

Link to strategy in year

1 – Deliver great customer experience
3 – Invest for growth

Link to business model

F – Financial capital
H – Human capital
S – Social capital

Trend

Across our operations we are exposed to the effects of political and geopolitical risks, in particular:

- In the UK, internet access is increasingly seen as an essential part of people's lives. As a result, political debate continues to focus on network coverage, quality and speed of service, as well as broader issues of online safety and security. As well as providing a critical element of the UK's national infrastructure, both fixed and wireless, we're also engaged in supporting high-profile programmes such as BDUK and the Emergency Services Network.
- The result of the UK referendum to leave the European Union ('Brexit') significantly increased political uncertainty. This continues to impact political debates around the United Kingdom, such as the possibility of a second Scottish Independence referendum and the complex situation in Northern Ireland including border matters.
- Outside the UK, political and geopolitical risk can impact our business through changes in the regulatory and competitive landscape – an example is the US Administration's changed approach to trade policy - but also as a direct threat to our people and assets as a result of social unrest or a breakdown in the rule of law.

Potential impact

Political uncertainty can have direct financial consequences across the economy, impacting for example foreign exchange rates, the availability and cost of capital, interest rates and also resulting in changes in the tax regime. For BT specifically, the most significant impact of political risk is its potential interaction with some of our other Principal Risks. In the UK, we're seeing an increasing overlap between political debate and the regulatory environment, with the potential that our Communications Industry Regulation risk increases as a result.

The impacts of Brexit are still uncertain while the UK's future trading and transition relationship with the EU is determined, albeit the agreement in principle on a number of withdrawal measures was welcome, notably the commitment to protect the rights of EU citizens living in the UK and vice versa. There is the potential for our costs to increase, for example through any changes required to our systems to reflect new taxes or customs duties or other processes. Our regulatory risk could increase if there were to be future divergence with the EU regime. Our suppliers may face disruption as a result of challenges in their own organisations and supply chains. Also, delivering a great customer experience and great network will become more challenging if it is harder for us to recruit and retain skilled talent and to source sufficient construction workforce. The UK economy may also suffer as a result of this uncertainty.

Geopolitical risk outside the UK can most clearly impact our Communications Industry Regulation risk, but also our Security and Resilience risks where it poses a threat to the continuity of our operations.

What's changed over the last year?

This has been a complex year, given the 2017 General Election, EU Withdrawal Bill, Brexit negotiations and other policy measures. A second Scottish Independence Referendum became less imminent as the SNP has a significantly reduced number of Scottish seats (albeit a majority still). In December 2017, the Government reached agreement in principle with the EU on divorce measures around people, money and Irish border principles; negotiations early in 2018 focused on finalising withdrawal issues and also moved on to transition and trading arrangements. What trading relationship the UK/EU will end up with and by when is unclear.

In the UK, the conclusion of Ofcom's Digital Communications Review (DCR) has resolved some of the uncertainties that affected BT 12 months ago. The agreement we reached with Ofcom at the conclusion of the review has led to the creation of a new, independent board for Openreach, which is working well. Openreach is doing its own independent work to plan its fibre rollout, in open consultation with the rest of the industry. The Government has now established a Future Telecoms Infrastructure Review, which we hope can provide additional certainty for companies and investors about how the policy and regulatory framework can promote long-term decision-making and, as a consequence, underpin future 5G and fibre deployment.

How we're mitigating the risks

We maintain strong engagement with the UK Government, key departments, MPs, peers, the media and with business and consumer bodies. We also engage closely with governments and politicians in Brussels and in our key markets around the world. We seek to inform public debate around telecommunications through fact-based evidence concerning the market and our role within it.

As explained in the case study on page 63, we've progressed the programme across the business to help us understand and manage the risks associated with Brexit. This also considered other potential impacts such as those associated with a second Scottish Independence referendum, and the border questions on the island of Ireland, and is led by a steering group chaired by the group CFO. We've also offered our views to Government, Parliament and business groups on related policy areas, such as R&D, data flows, trade and people/skills matters.

Outside the UK, our Public Affairs and regulatory teams work to help support governments and regulators in ensuring that markets work in an open and fairly regulated way for the benefit of customers and competition. Geopolitical risks are closely monitored, with our security and business continuity teams particularly focused on protecting our people and our assets.

BREXIT

There continues to be significant uncertainty following the UK's vote to leave the European Union (EU). We are making sure that we're prepared for the final outcome of negotiations between the UK and the EU. We also wish to help inform the debate where relevant to our sector and our company.

How we managed the risk

We decided early on that we needed to understand what risks and opportunities Brexit might create for us, so ahead of the vote we set up a programme bringing together functions across the business.

We then ramped up the activity after the vote, forming a steering group chaired by the group CFO. Over the last two years or so, it has overseen work that is being done by various sub-projects. These are looking at areas such as the tax, people, procurement, systems, regulatory and commercial impacts of Brexit. This year we've continued to offer our views to government on related policy areas, including responding to Parliamentary inquiries and consultation documents (on migration and on trade for instance), and working with business and sector associations to explain issues. We've also progressed our contingency planning, including identifying when we might need to put these plans into effect.

The result, and what we learnt

The nature of the Brexit negotiations have created a period of prolonged uncertainty. The readiness work that we've undertaken across the business means we can provide confidence of our resilience to our people, our customers and our suppliers.

Pensions

Link to strategy in year	Link to business model	Trend
2 – Transform our costs	F – Financial capital H – Human capital S – Social capital	∨

We have a large funding obligation to our defined benefit (DB) pension schemes. The largest of these, the BT Pension Scheme (BTPS or Scheme), represents over 97% of our pension obligations. The BTPS faces similar risks to other UK DB schemes: things like future low investment returns, high inflation, longer life expectancy and regulatory changes may all mean the BTPS becomes more of a financial burden.

Potential impact

The next valuation of the BTPS is scheduled to take place as at 30 June 2020 and an increase in the pension deficit may have an impact on the level of deficit payments we are required to make into the Scheme. Indirectly it may also have an adverse impact on our share price and credit rating.

Any deterioration in our credit rating would increase our cost of borrowing and may limit the availability or flexibility of future funding for the group, thereby affecting our ability to invest, pay dividends or repay debt as it matures.

What's changed over the last year?

The actuarial valuation of the Scheme as at 30 June 2017 was announced in May 2018. This provides certainty over the level of cash contributions required until the next triennial valuation is concluded, taking place no later than as at 30 June 2020.

As part of the actuarial valuation, we discussed the Scheme's approach to investing assets with the Trustee. The resulting changes should help protect the BTPS from volatile investment returns and high inflation by investing in a way which provides greater certainty over the Scheme's ability to meet benefit payments over the longer term.

When a valuation is calculated, the funding position is affected by the financial market conditions at the valuation date. When determining expected future returns on the Scheme assets, different factors are taken into account, including yields (or returns) on government bonds. If assets returns are lower than expected over the period to the next valuation, or a lower future investment return assumption is adopted at the 30 June 2020 valuation, the deficit would likely increase, potentially leading to a higher level of future deficit payments.

In March 2018, we announced the closure of Sections B and C of the BTPS to future benefit accrual (which represents more than 99% of the BTPS active membership), having reached agreement with the relevant Unions. Although we will establish a new hybrid pension arrangement for non-management employees in the BTPS at closure, the changes reduce the financial risks associated with providing future defined benefit pension accrual. We currently expect to close Sections B and C of the BTPS from 30 June 2018 when employees will join the BT Retirement Savings Scheme, our main defined contribution arrangement, for future pension accrual.

How we're mitigating the risks

The investment performance and liability experience are regularly reviewed by both us and the Trustee of the BTPS. We also consider the associated risks and possible mitigations. The investment strategy aims to partly mitigate the impact of increases in the liabilities, for example by investing in assets that will increase in value if future inflation expectations rise. The assets held are also well diversified, softening the impact of sharp drops in the value of individual asset classes. This helps maintain a reasonable balance of risk and return.

Our financial strength and cash generation provide a level of protection against the impact of changes in the funding position of the BTPS. The funding liabilities also include a buffer against future negative experience, as legislation requires that we calculate liabilities on a prudent basis.

Financial risk

Link to strategy in year

2 – Transform our costs
3 – Invest for growth

Link to business model

F – Financial capital
S – Social capital

Trend

In common with other major international businesses, we're exposed to a variety of financial risks. These include treasury risks, which arise principally from market risk (including interest rate risk and foreign exchange risk), credit risk, and liquidity risk. They also include tax risk, principally that we need to understand fully the current and future tax consequences of business decisions to comply with tax rules and avoid financial and reputational damage.

Potential impact

If there is an adverse movement in foreign exchange and interest rates there could be a negative impact on the group's profitability, cash flow, and balance sheet. Sensitivity in the income statement and shareholders' equity arising from interest rate and foreign exchange volatility is shown in note 27 to the consolidated financial statements.

The failure of Treasury counterparties to honour financial obligations could have an adverse impact on the group's liquidity (for example from the loss of cash deposits) and profitability (for example from increased finance expenses). A deterioration in liquidity could have an adverse impact on the Board's assessment of going concern, particularly if combined with an inability to refinance maturing debt.

If we fail to comply with tax rules then we could face financial penalties and reputational damage. Beyond compliance, if we don't adequately reflect the current and future tax consequences in our business decisions, we might make bad decisions resulting in financial loss and potentially financial misstatements, as well as reputational damage.

What's changed over the last year?

We continue to face the same treasury risks as in financial year 2016/17.

From a taxation perspective, our business continues to evolve rapidly, creating different tax consequences, for example the bringing together of EE and the BT Consumer customer-facing units, the Openreach industry consultation on large-scale FTTP, and a review of our pension provision. During the year, new UK legislation was introduced, which restricts deductions for interest expense and which reduced the ability to offset profits with prior year losses. Accounting changes can also have tax consequences, for example, forthcoming changes to accounting for revenue from contracts with customers and accounting for leases. Global tax rules also continue to evolve, for example the OECD's Base Erosion and Profit Shifting project, US tax reform, the European Commission's challenge to tax practices under state aid provisions, and EC and UK proposals for the introduction of an interim digital services tax. All these change the current and future tax consequences of business decisions.

How we're mitigating the risks

We have a centralised treasury function whose primary role is to manage liquidity and funding requirements as well as our exposure to associated financial and market risks, including credit risk, interest rate risk and foreign exchange risk, in line with Board-approved policies. These risk management policies are described in detail in note 27 to the consolidated financial statements. The Board reviews liquidity and funding requirements of the group on an ongoing basis.

A strong governance framework is also at the heart of our mitigation approach to tax risk. We've a framework for managing taxes that is set centrally and agreed by the Board. We employ suitably qualified professionals to manage and assure the operation of this framework. We seek to pay tax in accordance with the laws of the countries where we do business. However, in some areas these laws are unclear, and it can take many years to agree an outcome with a tax authority or through litigation. Nevertheless, we always seek open and constructive working relationships with tax authorities worldwide, engaging reputable independent advice where required.

Our principal risks and uncertainties continued
Operational risks

Security and resilience

Link to strategy in year

1 – Deliver great customer experience

Link to business model

F – Financial capital
I – Intellectual capital
M – Manufactured capital

Trend

Our commercial success is firmly rooted in our reputation for the security and resilience of our services. So we strive to maintain the highest standards of protection and incident management in order to confront the natural perils, network and system faults, and malicious acts that threaten our operations.

By monitoring cyber attacks on our networks and systems and our peers and customers, we see that hacking tools, phishing scams and disruptive malware are becoming more sophisticated and yet more accessible to attackers. In response, we continue to develop our cyber defence capability and invest more in automatic detection and prevention systems. We recognise that services can also be interrupted by events such as supply chain failure, software changes, equipment faults, fire, flood, infrastructure outages and sabotage.

Potential impact

The consequences of security and resilience risks can include major financial loss, long-term damage to reputation and loss of market share. Regulatory sanctions, fines and contract penalties might be applied, contracts might be terminated, and costly concessions might be needed, together with unplanned and rapid improvements to retain business and rebuild trust. We might also miss opportunities to grow revenue and launch new services ahead of the competition.

What's changed over the last year?

Cyber attackers are learning how to defeat conventional defences such as Anti-Virus (AV), proxy servers, and basic authentication. They are changing malware signatures faster than AV vendors can deliver matching identity files, launching Denial of Service (DoS) attacks that are disguised as legitimate traffic at the application level, and using increasingly convincing phishing emails to trick users into giving access to restricted systems. The growth in ransomware attacks has made headline news and caused significant disruption to some of our corporate customers, but we have so far managed to avoid such consequences. Our incident management teams are gaining experience from these events and applying lessons learned to improve our responses. We're also helping customers by sharing this expertise.

We've increased the use of Artificial Intelligence (AI) in our cybersecurity operations to process the vast amount of data available. We use our own Saturn system to visually filter the information and help our analysts perform investigations. We're trialling further AI innovations that will detect network anomalies in large volumes of data, and learn patterns of how malware propagates.

Looking at other drivers of service interruption, 2017/18 has been relatively benign for the UK in terms of extreme weather events. However, accepting that the risk is increasing, we've continued to enhance our overall flood/storm preparedness. We've also been working with the Government and other utilities in planning for a 'Black Start' (major shutdown of the national power transmission system) scenario.

How we're mitigating the risks

We're making risk improvements involving people, processes and technology - prioritising the work according to our assessments of security and resilience exposure. The proportion of our network and systems that is monitored and logged continuously is rising steadily, and the security awareness of our employees is being enhanced by advanced training modules and mock phishing exercises.

Segmentation of our IT estate at the data centre level is now complete, and we're turning our attention to micro-segmentation at the applications level as we provision new cloud-based systems. The results of 'Red Team' exercises by our ethical hackers are driving improvements across BT, particularly where access controls are found to need upgrading. We've also been tightening our control of sensitive personal data in preparation for the EU GDPR. This has prompted significant improvements in our IT inventory, which in turn makes it easier to manage major cyber incidents.

Mobile, geographically dispersed, emergency response capabilities are now operating at full designed capability. We've built on our site-specific flood defence plans, and completed specialist flood surveys of our most critical at risk assets, with a view during 2018/19 to deploying permanent flood defences as appropriate.

Members of our Emergency Response Team were deployed to the Caribbean to utilise their skills in providing emergency communications in response to hurricanes Irma and Maria. They were also able to use our improved approach to supporting community isolation situations in assisting the emergency services following the Grenfell Tower tragedy.

Employee engagement

Link to strategy in year	Link to business model	Trend
1 – Deliver great customer experience	H – Human capital	^

Our people are central to everything we do and a vital part of our ambition to deliver a great customer experience and sustainable, profitable revenue growth. Our people strategy supports this ambition by creating an inclusive and enjoyable workplace so that our people can thrive as part of a dynamic business. Great employee engagement is necessary to ensure we meet our strategic aims.

Potential impact
We need to transform our business while also continuing to recruit, retain and engage our workforce to deliver a great customer experience and grow the business. An adverse reaction to change could impact talent retention resulting in a loss of critical skills and greater need for external recruitment, which would add cost to the business. Poor engagement also raises the risk of general industrial unrest and action.

What's changed over the last year?
We limited pensionable pay increases for some members of the BT pension scheme and subsequently initiated a review of our UK pension arrangements. Following the review, we decided to close the BTPS to ensure that our pension arrangements are fair, flexible and affordable for both employees and BT, which included enhancements to our defined contribution pension scheme.

We continue to work through the people implications of making Openreach a separate legal entity in response to the outcome of the Digital Communications Review. We also announced the creation of a new Consumer team that brings together the BT Consumer and EE businesses.

How we're mitigating the risks
We've undertaken extensive consultation with unions, works councils and employee representatives as part of a comprehensive global engagement strategy designed to engender positive employee relations. We help employees understand the reasons for change and the impact it may have on them, while also working to protect service to customers.

The review of pension arrangements includes a proposal to enhance our defined contribution pension scheme to help provide an adequate income in retirement for all of our employees. We've continued to streamline our management structure to move decision making closer to the frontline customer teams and speed up the decision-making process to deliver better customer outcomes. We've also simplified our performance appraisal process, reducing the frequency of assessment and the number of performance categories to free up time for line managers to talk with their people and focus on developing their capabilities.

Change management

Link to strategy in year	Link to business model	Trend
1 – Deliver great customer experience 2 – Transform our costs 3 – Invest for growth	H – Human capital	^

We are implementing a wide-ranging change programme across the entire organisation known as One BT. We need to continue to deliver differentiated customer experiences, whilst being able to have the financial capacity to invest in integrated network leadership. At the same time, we want BT to be a simple and agile business where our people can thrive.

In transforming our operating model, we need to manage this change carefully to ensure it delivers the desired outcomes. We recognise that such extensive change can also be a distraction and can cause uncertainty amongst our colleagues, so it's important that we keep focused on delivering for our customers.

Potential impact
If we do not manage our change programmes carefully then they will not deliver the business outcomes that we are trying to achieve. That could result in poorer customer experiences, negative impacts on employee engagement, or potential overspend on the projects themselves, and at the end of the programmes we may not have achieved the efficient processes needed to deliver a great customer experience, the desired cost savings, or differentiated products and services we were trying to launch.

As we describe elsewhere in the Annual Report, we've been working hard on improving our customers' experiences, and have seen significant improvements over the last year. If our transformation programmes do not deliver their intended customer benefits, or divert colleagues' attention away from serving our customers, then we may suffer a reduction in the quality of the service we provide, and as a result incur customer churn and even financial penalties in some cases.

What's changed over the last year?
Over the past year, our key changes have included:

- the launch of a pan-BT transformation programme, One BT, which is designed to help our businesses deliver to their full potential
- bringing together BT Consumer, EE and Plusnet into a new Consumer business
- ongoing work to deliver a new Digital Global Services
- announcing the integration of our Wholesale and Ventures and Business and Public Sector businesses into a new Enterprise business
- announcing our plans to introduce a new People Framework, which will include a particular focus on our middle and senior-management grades
- as we describe elsewhere in the Annual Report, we've also been making changes to our Openreach business to implement Ofcom's Digital Communications Review.

How we're mitigating the risks

We apply a formal structure and governance to our key change programmes – for example, One BT has a full-time Programme Office and a Transformation Committee. Change programmes are also supported by our Customer and Enterprise Transformation team. By bringing together several transformation teams into one, we are able to ensure that our internal change programmes are co-ordinated and remain focused on delivering for our customers. The Customer and Enterprise Transformation team tracks programme delivery against targets for the Transformation Committee, *Executive Committee* and Board. The Transformation Committee meets weekly to make key decisions and to set the pace of change.

We recognise the importance of having the skills, capabilities, methods and tools to define and deliver change in the right way. So we've developed a new change approach, and have put in place an expert team that is building capability and providing direct support to HR, communications, change teams and our leaders in the business.

We've also maintained a close focus on our people and our culture, launching a number of specific and focused leadership capability development programmes to help our leaders manage their people through a period of extensive change whilst also delivering the best possible customer experiences.

Organisational change can cause uncertainty amongst colleagues, and we communicate closely with our unions and works councils in designing, announcing and implementing changes. Our engagement strategy allows us to monitor employee engagement on a regular basis, informing any interventions that we feel necessary.

Supply chain

Link to strategy in year	Link to business model	Trend
1 – Deliver great customer experience 2 – Transform our costs	F – Financial capital S – Social capital H – Human capital N – Natural capital	>

We operate in a global supply market. Our supply chains range from simple to very complex. It's critical to our operations that we can guarantee their integrity and continuity.

Global markets expose us to global risks, including different standards in labour, environmental and climate change practices, increasing regulation and geopolitical events. We weigh up the impact and likelihood of external market forces on our suppliers' ability to support us.

Globalisation means better sourcing opportunities, but brings challenges if suppliers become more geographically and culturally remote from our customers – or if governments put barriers in the way of doing business to protect national or regional economic interests.

Our dealings with suppliers follow our trading and ethical policies. From the way we choose them, to the contracts we sign and how we pay them. For more detail, see page 49.

Potential impact

If something goes wrong in our supply chain, the speed and scale of impact can vary. We need to determine the potential damage to customer experience, the likelihood of higher costs and the potential damage to our brand. If substituting a failing supplier meant that we had to disrupt our business, it could cost us a lot of time and money. If we couldn't find an alternative supplier, it might compromise the commitments we make to our customers, which could in turn lead to breach of contract, lost revenue or penalties.

If any link in our supply chain falls foul of the law, or fails to meet our ethical expectations, that could damage our reputation – possibly leading to legal action and lost revenue.

If we don't meet the expectations of regulators that govern us and the data we manage, it could result in significant penalties. In the case of EU General Data Protection Regulation 2018, this could amount to 4% of our global annual turnover.

What's changed over the last year?

We dedicate time to assessing emerging geopolitical threats and the impact they could have on our supply chain. These include the impacts of the UK leaving the EU in March 2019; the threat of modern slavery and human trafficking; and the growing threat of cyber attacks on our systems and networks.

We continue to monitor the trend for mergers and acquisitions in some of the global markets we do business in. It highlights the risk of us becoming too dependent on single or monopolistic suppliers. We also try to make sure that suppliers do not become too dependent on us. Both scenarios are unhealthy for our business.

This year one of our more significant suppliers, Carillion, went into liquidation. However, by implementing our risk and governance arrangements we were able to manage and reduce the disruption to our business.

How we're mitigating the risks

We have a few really critical suppliers. We keep a close watch on our relationships, their performance and their ability to meet their obligations. We tell the business when to prepare for the risk of a supplier failing, and our senior leaders continually review how ready we are for such events.

We make sure we exercise the right amount of due diligence when it comes to introducing new suppliers and continuing to do business with existing ones. That includes checks on company finances, business systems, accreditations, media reputation and ethical practices. The standards we apply to our suppliers are available on selling2bt.bt.com

We manage our top suppliers according to the contracts they've signed. We work with them to find better ways of working, reducing our exposure to risks around poor supplier practices in the process.

We're also continually looking to improve our response to disruptive events.

Major contracts

Link to strategy in year

1 – Deliver great customer experience
2 – Transform our costs
3 – Invest for growth

Link to business model

F – Financial capital

Trend

We have a number of complex and high-value national and multinational customer contracts. The revenue and profitability of these contracts are affected by things like: variation in cost; achieving cost savings anticipated in contract pricing (both in terms of scale and time); delays in achieving agreed milestones owing to factors either in or out of our control; changes in customers' needs, their budgets, strategies or businesses; and our suppliers' performance. Any of these factors could make a contract less profitable or even loss-making.

The degree of risk varies with the scope and life of the contract and is typically higher in the early stages. Some customer contracts need investment in the early stages, which we then expect to recover over the life of the contract.

Major contracts often involve implementing new systems and communications networks, transforming legacy networks, managing customer networks and developing new technologies. Delays or missed milestones might have an impact on us recovering these upfront costs. There's a substantial performance risk throughout the term of some of these highly-complex contracts.

Potential impact

If we don't manage to meet our commitments under these contracts – or if customers' needs, budgets, strategies or businesses change – then our expected future revenue, profitability and cash generation may go down. Unexpectedly high costs associated with fulfilling particular transformational contracts could also hit profitability. Earnings may drop. Contracts may even become loss-making through loss of revenue, changes to customers' businesses (due to, for example, mergers or acquisitions), business failure or contract termination.

One of our highest profile contracts is providing a key element of the UK Emergency Services Network (ESN) on our EE mobile network. The complexities described above all apply to this programme. This service is delivered with several partners and managed by the Home Office. The Home Office has delayed the launch date and further delays will impact the expected income. Furthermore, the criticality of this service increases our risk exposure once it's live, and given the network provides emergency services communications for the UK, performance in life of the network could have reputational consequences for BT.

We're continuing to deliver contracts with local authorities through regional fibre deployment programmes, including the Broadband Delivery UK programme (BDUK). As with our other major contracts, if we fail to deliver these contracts successfully it might lead to reduced future revenue, profitability and cash generation. As well as carrying a higher reputational risk, these contracts present specific risks around deployment, delivery and our ability to recover public funding. We also have an obligation to potentially either reinvest or repay grant funding depending on lots of different factors – including how many customers take up a new service.

What's changed over the last year?

We have extended our 'Gold Standard' quality programme to our Contract Accounting and financial management activities. Our major contracts are assessed against strict 'gold standard' criteria and those contract teams below the benchmark will be developed/coached for improvement in order to attain the standard.

Tough market conditions continue and the impact of the UK voting to leave the EU has meant some customer programmes have been delayed, which has had an impact on the business. Customers are asking for more flexibility in their contracts.

The majority of our first phase of BDUK contracts have now completed their deployment commitments. We're now nearing the contractual end dates of the second phase of contracts (SEP). In addition, we have further extended numerous existing contracts and begun deployment of the third phase of contracts. While these later phase contracts are smaller in scale and coverage, the deployment challenges are significantly greater in terms of the geography encountered as we reach further into the final 5% of households.

While our broadband contracts and ESN carry a different risk profile to other major corporate contracts, we apply our governance and reporting processes to make sure we identify risks and mitigation activities and report them to management.

How we're mitigating the risks

At both group and corporate unit level we have governance, risk management and reporting processes in place. Independent audits and the checks and balances in individual contracts provide assurance through an independent review programme. To track progress, we monitor how we're doing on these risks and mitigation actions, and report the result to senior management. A separate, dedicated team provides assurance for our BDUK and ESN projects.

The BT Academy supports skills development and learning initiatives. These help our Contract Management Profession to better identify and manage risk. We also update new training collateral whenever we learn something new. In 2017/18 we introduced a Gold Standard sustainability measure to ensure our contracts continue to operate at the highest possible standard.

We continue to invest in risk training, and assess the management of our contracts against a best practice framework we've developed based on our knowledge of running and managing major programmes. We're also investing and growing our contract management expertise through the provision of accredited contract management training.

Use of Artificial Intelligence to help contract management

Developing an in-depth understanding of our obligations and performance across our entire major contracts portfolio is challenging. However, it is imperative if we are to manage risk and deliver a great customer experience.

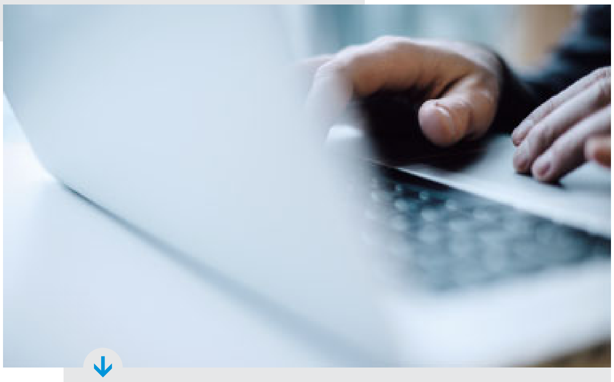
How we managed the risk

We've introduced an Artificial Intelligence (AI) capability to improve the efficiency and accuracy when analysing Major Contracts contained in the 'contract lifecycle management' system.

The result, and what we learnt

Our AI capability promises many benefits which we expect to increasingly evolve in support of Major Contract management, benefiting both BT and our customers. Analysing 'big data' has improved our revenue assurance capability as well as identifying risk trends across obligations on our more bespoke contracts. Finally, it's helped us to understand the consequences of changes to legislation, regulation or market impacts on our complex contracts.

Sharing malware data with ISPs



Cyber threats pose a risk to our entire industry. In our efforts to protect customers and businesses from global cybercrime, we've taken industry collaboration to a new level.

How we managed the risk

In February 2018 we became the first telecommunications provider in the world to start sharing information about malicious software and websites on a large scale with other internet service providers (ISPs). We launched a free collaborative online platform to share our threat intelligence data across the ISP community in a secure and trusted way. We're now urging other UK broadband providers to follow our lead.

The result, and what we learnt

We're sharing data relating to malware because we believe the most effective way to bolster the UK's defences against cybercrime is through greater collaboration and the exchange of information. If other ISPs join us in actively sharing threat intelligence data, this will help the entire industry to develop and strengthen a collective shield which will help to protect all customers.

Our viability statement

Assessment of prospects

An understanding of the group's strategy and business model is central to assessing its prospects, and details can be found on pages 20 to 34.

Our business model provides resilience that is relevant to any consideration of our prospects and viability. In the UK, we benefit from diversification across a number of markets and products, which increased through the launch of BT Sport and the acquisition of EE. We also have a broad spread of customers and suppliers across different geographic areas and market sectors, serving the needs of customers in 180 countries worldwide.

Our strategy of delivering differentiated customer experiences, investing in integrated network leadership and transforming our operating model is designed to support long-term and sustainable cash flow growth.

We assess our prospects on a regular basis through our financial planning process. Our Medium Term Plan forecasts the group's profitability, cash flows and funding requirements, and is reviewed by the Board during the year. The Medium Term Plan is built from the bottom-up forecasts of each of our customer-facing units, supplemented by items managed at a group level and assumptions such as macro-economic activity and exchange rates. The performance of the group and our customer-facing units against these forecasts is monitored monthly and this is supplemented each quarter through a series of Quarterly Business Reviews performed by the *Executive Committee*.

Beyond our Medium Term Planning horizon, the group also makes investments that have business cases covering a longer time period, such as our network investments. Significant capital expenditure investment cases are reviewed by the *BT Investment Board* and, where appropriate, the *Executive Committee* and the Board, after taking into account longer-term risks and opportunities such as the economy, technology and regulation.

Finally, our business and financial planning also takes into account our longer-term obligations, including the funding of our defined benefit pension schemes.

Viability Statement

In accordance with provision C2.2 of the 2016 UK Corporate Governance Code, the Directors have assessed the prospects and viability of the group.

Although the Directors have no reason to believe that the group will not be viable over a longer period, the Board has chosen to conduct this review for a period of three years to 31 March 2021. The Board believes this is an appropriate timeframe as it aligns with the primary focus of our business planning and the underpinning time cycles of a number of our principal risks: for example the pension scheme funding valuation and Ofcom's market review cycle.

In support of this statement we've stress tested our forecast cash flows by assessing, through a probabilistic analysis, the range of potential combined impacts our most significant risks could have on these forecasts. This assessment was informed by our judgements as to the potential financial impact of these risks if they materialise, together with their likelihood of occurrence.

Our stress testing confirmed that existing projected cash flows and cash management activities provide us with a buffer against the impact of our most likely risks. In the most extreme scenarios we tested, where all of our principal risks are assumed to materialise over the three-year period, we have considered the further actions we could take to mitigate the negative cash flow impact and ensure additional liquidity. These actions could include, for example, sale of assets, limiting or delaying discretionary capital expenditure and marketing activities, restricting share buyback programmes and reducing or ceasing dividend payments.

In our viability assessment we've adopted a number of assumptions designed to stress test our resilience. For example, in making our assessments of the impact and likelihood of our risks, we've only taken into account the control activities that we have in place today. We've not factored in any of the extensive future mitigation activity that we're undertaking to address these risks, thereby assuming such activity proves ineffective. While we do not expect this to happen, we've adopted these pessimistic assumptions to add greater stress to our viability testing.

We've also assumed that, should the need arise, we would have both the ability to renew existing debt facilities which mature over the three-year period and be able to raise new debt.

Based on the results of this analysis, the Directors have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.