

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

CLAYTON HOLLISTER, Individually and on	:	X
Behalf of All Others Similarly Situated,	:	Civil Action No.
	:	
Plaintiff,	:	COMPLAINT FOR VIOLATIONS OF THE
	:	FEDERAL SECURITIES LAWS
vs.	:	
	:	DEMAND FOR JURY TRIAL
	:	
BT GROUP PLC, IAN LIVINGSTON,	:	
GAVIN E. PATTERSON, TONY	:	
CHANMUGAM, SIMON JONATHAN	:	
LOWTH, AND LUIS ALVAREZ,	:	
	:	
Defendants.	:	

X

Plaintiff Clayton Hollister (“Plaintiff”) makes the following allegations based upon the investigation of Plaintiff’s counsel, which included a review of United States Securities and Exchange Commission (“SEC”) filings by BT Group plc (“BT Group” or the “Company”), as well as securities analysts’ reports and advisories about the Company, press releases, media reports and other public statements issued by or about the Company. Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a federal securities class action on behalf of all purchasers of BT Group securities between May 10, 2013 and January 23, 2017, inclusive (the “Class Period”), seeking to pursue remedies under and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (“Exchange Act”) and Rule 10b-5 promulgated thereunder (17 C.F.R. §240.10b-5).

JURISDICTION AND VENUE

2. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act [15 U.S.C. §§78j(b) and 78t(a)] and Rule 10b-5 promulgated thereunder [17 C.F.R. §240.10b-5].

3. This Court has jurisdiction over this action pursuant to Section 27 of the Exchange Act [15 U.S.C. §78aa], and 28 U.S.C. §§1331 and 1337.

4. Venue is properly laid in this District pursuant to Section 27 of the Exchange Act and 28 U.S.C. §1391(b) and (c). The acts and conduct complained of herein occurred in substantial part in this District. Moreover, the Company’s American Depositary Receipts (“ADRs”) are traded on the New York Stock Exchange (“NYSE”).

5. In connection with the acts and conduct alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including the

United States mails, interstate telephone communications, and the facilities of the NYSE, a national securities exchange.

PARTIES

6. Plaintiff Clayton Hollister purchased BT Group ADRs, as set forth in the certification attached hereto and incorporated herein by reference, and was damaged thereby.

7. Defendant BT Group provides communications services worldwide. The Company is headquartered in London, the United Kingdom.

8. Defendant Ian Livingston was the Company's Chief Executive Officer until September 2013.

9. Defendant Gavin E. Patterson ("Patterson") is the Chief Executive Officer of BT Group. Defendant Patterson succeeded Defendant Livingston.

10. Defendant Tony Chanmugam ("Chanmugam") was BT Group's Finance Director until July 2016.

11. Defendant Simon Jonathan Lowth ("Lowth") is the Finance Director of BT Group. Defendant Lowth succeeded Defendant Chanmugam.

12. Defendant Luis Alvarez ("Alvarez") is, and was at all relevant times, the Chief Executive Officer of BT Group's Global Services division and oversaw the Company's BT Italia segment.

13. Defendants Livingston, Patterson, Chanmugam, Lowth, and Alvarez are referred to herein as the "Individual Defendants." BT Group and the Individual Defendants are referred to herein, collectively, as "Defendants."

14. During the Class Period, Defendants were privy to confidential and proprietary information concerning BT Group, its operations, finances, financial condition and present and future business prospects. Because of their positions with BT Group, Defendants had access to non-

public information about its business, finances, products, markets and present and future business prospects via internal corporate documents, conversations and connections with other corporate officers and employees, attendance at management and/or board of directors meetings and committees thereof and via reports and other information provided to them in connection therewith. Because of their possession of such information, Defendants knew or recklessly disregarded that the adverse facts specified herein had not been disclosed to, and were being concealed from, the investing public.

15. Defendants are liable as direct participants in the wrongs complained of herein. In addition, Defendants were “controlling persons” within the meaning of Section 20(a) of the Exchange Act and had the power and influence to cause the Company to engage in the unlawful conduct complained of herein. Because of their positions of control, Defendants were able to and did, directly or indirectly, control the conduct of BT Group’s business.

16. Defendants, because of their positions with the Company, controlled and/or possessed the authority to control the contents of its reports, press releases and presentations to securities analysts and through them, to the investing public. Defendants were provided with copies of the Company’s reports and press releases alleged herein to be misleading, prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Thus, Defendants had the opportunity to commit the fraudulent acts alleged herein.

17. As controlling persons of a publicly-traded company whose stock was registered with the SEC pursuant to the Exchange Act, and was traded on the NYSE and governed by the federal securities laws, Defendants had a duty to promptly disseminate accurate and truthful information with respect to BT Group’s financial condition and performance, growth, operations, financial statements, business, products, markets, management, earnings and present and future business

prospects, and to correct any previously issued statements that had become materially misleading or untrue, so that the market price of BT Group securities would be based upon truthful and accurate information. Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

18. Each of the Defendants is liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of BT Group securities by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme: (i) deceived the investing public regarding BT Group's business, operations, and the intrinsic value of BT Group securities; and (ii) caused Plaintiff and other members of the Class to purchase BT Group securities at artificially inflated prices.

CLASS ACTION ALLEGATIONS

19. Plaintiff brings this action as a class action pursuant to Federal Rules of Civil Procedure 23(a) and 23(b)(3) on behalf of himself and all purchasers, other than Defendants, of BT Group securities during the Class Period (the "Class").

20. Excluded from the Class are Defendants herein, members of the immediate families of each of the Defendants, any person, firm, trust, corporation, officer, director or other individual or entity in which any Defendant has a controlling interest or which is related to or affiliated with any Defendant, and the legal representatives, agents, affiliates, heirs, successors-in-interest or assigns of any such excluded party.

21. The members of the Class are so numerous that joinder of all members is impracticable. The precise number of Class members is unknown to Plaintiff at this time, but is believed to be in the thousands. In addition, the names and addresses of the Class members can be ascertained from the books and records of BT Group or its transfer agent. Notice can be provided to such record owners by a combination of published notice and first-class mail, using techniques and a

form of notice similar to those customarily used in class actions arising under the federal securities laws.

22. Plaintiff will fairly and adequately represent and protect the interests of the members of the Class. Plaintiff has retained competent counsel experienced in class action litigation under the federal securities laws to further ensure such protection and intends to prosecute this action vigorously.

23. Plaintiff's claims are typical of the claims of the other members of the Class because Plaintiff's and Class members' damages arise from and were caused by the same false and misleading representations and omissions made by or chargeable to Defendants. Plaintiff does not have any interests antagonistic to, or in conflict with, the Class.

24. A class action is superior to other available methods for the fair and efficient adjudication of this controversy. Since the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it virtually impossible for the Class members to seek redress for the wrongful conduct alleged. Plaintiff knows of no difficulty that will be encountered in the management of this litigation that would preclude its maintenance as a class action.

25. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) whether the federal securities laws were violated by Defendants' acts as alleged herein;

(b) whether statements made by Defendants during the Class Period were materially false and misleading;

(c) whether the price of BT Group securities was artificially inflated during the Class Period; and

(d) the extent of injuries sustained by the members of the Class and the appropriate measure of damages.

SUBSTANTIVE ALLEGATIONS

26. Defendant BT Group describes itself as “one of the world’s leading providers of communications services and solutions, serving customers in 180 countries. Its principal activities include the provision of networked IT services globally; local, national and international telecommunications services to its customers for use at home, at work and on the move; broadband, TV and internet products and services; and converged fixed-mobile products and services. BT consists of six customer-facing lines of business: Consumer, EE, Business and Public Sector, Global Services, Wholesale and Ventures, and Openreach.”

27. BT Global Services plc (“BT Global Services”) is a division of BT Group. BT Global Services delivers a combination of communications and IT services to over 10,000 organisations and governments worldwide. Defendant Luis Alvarez became chief executive of BT Global Services in 2012. During the Class Period, Corrado Sciolla was president of BT Global Services in Continental Europe, which included BT Italia S.p.A. (“BT Italia”). BT Italia is the second largest business telecommunication operator in the Italian market.

28. The Class Period begins on May 10, 2013. On that date, BT Group issued a press release announcing its financial results for the fourth quarter and year end, the period ending March 31, 2013. For the year, the Company reported revenue of £18,253m, EBITDA of £6,181m, and adjusted earnings per share of 26.6p. Defendant Livingston, commenting on the results, stated, in pertinent part, as follows:

We are doing what we said we would do. In an environment where it is easier to focus only on the short-term, we are investing in our future and delivering growth in profits and dividends. We are driving fibre across the UK, launching high quality sports channels, investing in the high-growth regions of the world and will use our wi-fi capabilities and 4G spectrum to make sure our customers will be the best connected. We have created around 3,000 new jobs in the UK over the last year to support these investments.

Our focus on improving efficiency across the business will allow us to continue to deliver strong financial results whilst making these investments. Our good performance this year is reflected in our dividend which is up 14% for the year.

We have a lot more to do but we are now a lot better positioned to do it.

29. With regard to the Company's outlook, the press release stated, in pertinent part, as follows:

	2013/14	2014/15	2015/16
Underlying revenue excluding transit	Improved trend		
EBITDA	£6.0–£6.1bn	£6.2–£6.3bn	Growth
Capital expenditure	Broadly level	Broadly level	
Normalised free cash flow	c.£2.3bn	c.£2.6bn	Growth
Dividend per share	Up 10%–15%	Up 10%–15%	
Share buyback programme	c.£300m	c.£300m	

30. In reaction to these announcements, the price of BT Group ADRs rose \$2.52 per ADR on May 10, 2013, to \$23.75 per ADR¹ – an increase of 12%.

31. On May 23, 2013, the Company filed its annual report on Form 20-F with the SEC for the period ending March 31, 2013. With regard to BT Group’s “Internal control over financial reporting,” the annual report stated, in pertinent part, as follows:

BT’s management is responsible for establishing and maintaining adequate internal control over financial reporting for the group including the consolidation process. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with IFRS. Management conducted an assessment of the effectiveness of internal control over financial reporting based on the framework for internal control evaluation contained in the Revised Guidance for Directors on the UK Governance Code published by the Financial Reporting Council (the Turnbull Guidance).

Based on this assessment, management has concluded that at 31 March 2013, BT’s internal control over financial reporting was effective.

There were no changes in BT’s internal control over financial reporting that occurred during 2012/13 that have materially affected, or are reasonably likely to have materially affected, the group’s internal control over financial reporting. Any significant deficiency, as defined by the US Public Company Accounting Oversight Board (PCAOB), in internal control over financial reporting, is reported to the Audit & Risk Committee. PricewaterhouseCoopers LLP, which has audited the consolidated financial statements for 2012/13, has also audited the effectiveness of the group’s internal control over financial reporting under Auditing Standard No.5 of the PCAOB.

32. Moreover, the annual report included signed certifications by Defendants Livingston and Chanmugam, representing that the financial information contained therein was accurate and that the Company’s internal and disclosure controls were effective.

33. On July 25, 2013, BT Group issued a press release announcing its financial results for the fiscal first quarter, the period ending June 30, 2013. For the quarter, the Company reported

¹ Share prices are adjusted for dividends.

revenue of £4,449m, EBITDA of £1,440m, and adjusted earnings per share of 5.9p. Defendant Livingston, commenting on the results, stated, in pertinent part, as follows:

BT continues to make good progress, delivering another quarter of solid growth in underlying profit before tax. This is despite the impact of regulation and the significant investments we are making for the future.

It is early days but we are very pleased with the strong start in BT Sport. More than half a million households have now ordered BT Sport and that's before the channels have even launched.

Our consumer line loss is at its lowest level in five years and we took a 50% share of the broadband market net additions. Our SME business grew revenues by 1%, the best performance in more than four years, and our BT Global Services order intake was up almost 50%.

Fibre remains at the heart of our plans and take-up is strong. Our fibre network now passes more than 16 million premises with more than 1.7 million connected.

I am immensely proud to have led BT over the last five years. The foundations are in place for an exciting future and I'm confident that BT will make even more progress under Gavin's leadership and our talented team.

34. With regard to the Company's outlook, the press release stated, in pertinent part, as follows:

2013/14 outlook

Our first quarter results position us well for the full year, for which our outlook is unchanged. As previously reported, we expect EBITDA in the first half of the year to be impacted by our upfront investment in BT Sport. In the second quarter we expect this to impact BT Retail EBITDA by around £100m including programme content costs which we will start to recognise.

In BT Global Services we expect a smaller year on year benefit from contract milestones in the second quarter, with this reversing to give a larger year on year benefit in the third quarter. Partially offsetting this in the second quarter, BT Wholesale's year on year performance will benefit from the charge relating to ladder pricing in the prior year.

35. On October 31, 2013, BT Group issued a press release announcing its financial results for the fiscal second quarter, the period ending September 30, 2013. For the quarter, the Company

reported revenue of £4,491m, EBITDA of £1,434m, and adjusted earnings per share of 6.0p.

Defendant Patterson, commenting on the results, stated, in pertinent part, as follows:

These are good results, with growth in earnings per share and free cash flow.

This has been our strongest ever quarter for fibre take-up with Openreach net connections up 70%. Our fibre network now passes more than 17 million premises. It is open to all and many other service providers have now got behind it.

BT Sport has made a confident start and is already delivering for viewers. More than two million of our customers are signed up to it and our wholesale contract with Virgin Media means it is available to around four million homes in total. It is also delivering for the business, helping us achieve a record 93% share of broadband net adds in the quarter, our lowest line losses for five years and 4% revenue growth in our BT Retail Consumer business.

BT Retail's Business division again saw good growth in IT services while BT Global Services and BT Wholesale both generated strong order books.

I feel privileged to be the new CEO of BT and am determined to build on the strong foundations that are already in place. These are exciting times for the company and we are determined to deliver our strategy with energy and discipline.

36. With regard to the Company's outlook, the press release stated, in pertinent part, as follows:

Outlook

Our outlook is unchanged. We continue to expect an improved trend in underlying revenue excluding transit in 2013/14 compared with 2012/13. We expect adjusted EBITDA to be £6.0bn-£6.1bn in 2013/14, £6.2bn-£6.3bn in 2014/15 and to grow further in 2015/16. We expect capital expenditure in 2013/14 and 2014/15 to be broadly level with 2012/13 and normalised free cash flow to be around £2.3bn in 2013/14, around £2.6bn in 2014/15 and to grow further in 2015/16.

37. On January 31, 2014, BT Group issued a press release announcing its financial results for the fiscal third quarter, the period ending December 31, 2013. For the quarter, the Company reported revenue of £4,599m, EBITDA of £1,537m, and adjusted earnings per share of 7.3p.

Defendant Patterson, commenting on the results, stated, in pertinent part, as follows:

This is an encouraging set of results, with profit before tax up 8%, earnings per share up 12% and growth in revenue.

Our strategic investments are delivering. It was another record quarter for fibre take-up and there are now more than 18 million premises with access to our fibre. That number will grow further as the BDUK programme progresses.

Fibre helps SMEs to compete and underpins our TV plans. Our direct BT Sport customer base passed 2.5 million in the quarter and helped to support 6% revenue growth in our Consumer business. We achieved some particularly strong audience figures in December and the exclusive rights to the UEFA Champions League and UEFA Europa League that we have won will further strengthen the appeal of our proposition.

Outside the UK our businesses in the high-growth regions of the world again delivered double-digit revenue growth.

The momentum on our cost transformation has enabled us to raise our EBITDA outlook for the year. It is important that we keep up the progress we are making across the group whilst continuing to focus on improving the service we provide to our customers.

38. On May 8, 2014, BT Group issued a press release announcing its financial results for the fiscal fourth quarter and year end, the period ending March 31, 2014. For the year, the Company reported revenue of £18,287m, EBITDA of £6,116m, and adjusted earnings per share of 28.2p. Defendant Patterson, commenting on the results, stated, in pertinent part, as follows:

We have made strong progress this year. Underlying revenue, adjusted profit before tax and normalised free cash flow have all grown and beaten market expectations.

Our investment in fibre is delivering with 1.3 million more premises taking fibre this year, almost doubling the number of homes and businesses now connected. Our rollout is ahead of schedule with our fibre network passing more than 19 million premises, around two thirds of the UK. But we are not stopping there. All of our BDUK projects are underway and will help take the coverage of all fibre networks to at least 90% of the UK, bringing significant benefits to communities across the nation.

BT Sport has proved very popular and we are delighted the service is now in around five million homes. For BT Consumer it underpinned a record 9% growth in revenue in the fourth quarter and the lowest line losses in over five years. We achieved an excellent 79% share of broadband market net additions in the quarter.

BT Global Services delivered a 9% increase in its order intake this year and continued to see double-digit revenue increases in the high-growth regions of the world. BT Business and BT Wholesale have also delivered decent order intakes. Our

cost transformation programmes are helping to drive the strong cash flow of the group.

These results provide a strong platform for growth and from which to achieve our outlook for the years ahead. Our performance in the year means that we are growing our full year dividend by 15% to 10.9p and we now expect to increase our dividend by 10%-15% for each of the next two years. We continue to focus on improving the service we provide to our customers and delivering on our investments.”

39. With regard to the Company’s outlook, the press release stated, in pertinent part, as follows:

Future outlook:

We are confident we will achieve our goal of sustainable, profitable revenue growth and we have updated our outlook as set out below:

* * *

2014/15 underlying revenue excluding transit expected to be broadly level with 2013/14 despite an expected negative year on year impact of around £100m in UK local government revenues

2014/15 normalised free cash flow outlook above our previous expectations reflecting capital expenditure efficiencies. Cash flow growth to continue in 2015/16

Dividend and share buyback policy extended by one year to 2015/16

* * *

Outlook

Our investments are delivering for the business and we expect them to support our goal of sustainable, profitable revenue growth. We are also confident there are significant opportunities for further cost transformation across the group. Together, these will drive long-term cash flow growth. We will continue with our prudent financial policy of investing in our business, reducing net debt (targeting a BBB+/Baa1 credit rating over the medium term), supporting the pension fund and paying progressive dividends.

In 2014/15, lower levels of expenditure in the UK local government sector, and our focus on only pursuing business in this sector that generates economic value, are expected to impact revenue by around £100m. We therefore expect underlying revenue excluding transit to be broadly level with 2013/14. We expect growth in 2015/16.

We continue to expect adjusted EBITDA of £6.2bn-£6.3bn in 2014/15 with further growth in 2015/16. As a result of capital expenditure efficiencies, we now expect normalised free cash flow to be above £2.6bn in 2014/15. We continue to expect normalised free cash flow to grow in 2015/16.

We have extended our dividend policy by one year and now expect to grow our dividend by 10%-15% in both 2014/15 and 2015/16. We have also extended our £300m annual share buyback to the 2015/16 financial year. This will partly counteract the dilutive effect of all-employee share option plans maturing over this period.

40. On May 22, 2014, the Company filed its annual report on Form 20-F with the SEC for the period ending March 31, 2014. With regard to BT Group's "Internal control over financial reporting," the annual report stated, in pertinent part, as follows:

Internal control over financial reporting

BT's management is responsible for establishing and maintaining adequate internal control over financial reporting for the group. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with IFRS. Management conducted an assessment of the effectiveness of internal control over financial reporting based on the framework for internal control evaluation contained in the Revised Guidance for Directors on the UK Governance Code published by the Financial Reporting Council (the Turnbull Guidance).

Based on this assessment, management has concluded that at 31 March 2014, BT's internal control over financial reporting was effective.

There were no changes in BT's internal control over financial reporting that occurred during 2013/14 that have materially affected, or are reasonably likely to have materially affected, the group's internal control over financial reporting. Any significant deficiency, as defined by the US Public Company Accounting Oversight Board (PCAOB), in internal control over financial reporting, is reported to the Audit & Risk Committee. PricewaterhouseCoopers LLP, which has audited the consolidated financial statements for 2013/14, has also audited the effectiveness of the group's internal control over financial reporting under Auditing Standard No.5 of the PCAOB.

41. Moreover, the annual report included signed certifications by Defendants Patterson and Chanmugam, representing that the financial information contained therein was accurate and that the Company's internal and disclosure controls were effective.

42. On July 31, 2014, BT Group issued a press release announcing its financial results for the fiscal first quarter, the period ending June 30, 2014. For the quarter, the Company reported revenue of £4,354m, EBITDA of £1,435m, and adjusted earnings per share of 6.5p. Defendant Patterson, commenting on the results, stated, in pertinent part, as follows:

We have made a good start to the year. We have delivered growth in underlying revenue excluding transit and in profit before tax, and free cash flow was strong.

Our fibre broadband network now covers more than twenty million premises. We are passing over 70,000 additional premises each week and demand is strong with more than three million already signed up. We have announced a further 2,500 new jobs in recent months to support our strategic investments in fibre and customer service.

I'm excited by the launch of BT One Phone for the business market as well as our other mobility plans. We'll say more on these later this financial year. The second season of BT Sport is about to start with a great line-up of content and it will continue to be free with BT Broadband. We are building on solid foundations and I am confident we will deliver on our strategy.

43. On October 30, 2014, BT Group issued a press release announcing its financial results for the fiscal second quarter, the period ending September 30, 2014. For the quarter, the Company reported revenue of £4,383m, EBITDA of £1,450m, and adjusted earnings per share of 6.9p. Defendant Patterson, commenting on the results, stated, in pertinent part, as follows:

This was a solid quarter, with results slightly ahead of market expectations as we reduced costs and grew EBITDA. Profit before tax was up 13 per cent.

Our Consumer business continues to perform well thanks to the impact of BT Sport where Premier League audiences are up around 45 per cent on average. Fibre is also driving growth with one in three of our retail broadband customers enjoying super-fast speeds.

Our fibre footprint has increased to more than 21 million premises and will continue to grow. We continue to see strong demand across the market for the faster speeds that fibre offers.

Further improving customer service remains a priority and Openreach is recruiting an additional 500 engineers to help us better serve our customers. We have also launched a range of new cloud-based products and services aimed at the business market.

We are delivering on our strategy and our outlook remains unchanged. Our confidence enables us to raise our interim dividend by 15 per cent to 3.9p.

44. With regard to the Company's outlook, the press release stated, in pertinent part, as follows:

Outlook

Our outlook is unchanged. We continue to expect underlying revenue excluding transit in 2014/15 to be broadly level with 2013/14 with growth in 2015/16. We expect adjusted EBITDA of £6.2bn - £6.3bn in 2014/15 with further growth in 2015/16. Normalised free cash flow is expected to be above £2.6bn in 2014/15 and to grow in 2015/16.

We intend to continue our policy of reducing net debt and are targeting a BBB+/Baa1 credit rating over the medium term. We expect to grow our dividend by 10% - 15% in both 2014/15 and 2015/16. We also intend to maintain our share buyback of around £300m in each of these years, to help counteract the dilutive effect of all-employee share option plans maturing over this period.

45. On January 30, 2015, BT Group issued a press release announcing its financial results for the fiscal third quarter, the period ending December 31, 2014. For the quarter, the Company reported revenue of £4,475m, EBITDA of £1,567m, and adjusted earnings per share of 8.0p. Defendant Patterson, commenting on the results, stated, in pertinent part, as follows:

This quarter we have delivered good growth in profit before tax and strong free cash flow.

Openreach achieved the highest growth in the number of landlines on record. It was also our best ever quarter for fibre broadband net additions. All the major communications providers are responding to the strong market demand for fibre broadband, helping to drive take-up in what is already a very competitive market.

Our superfast fibre broadband network now covers around three-quarters of the UK. BT has been at the forefront of fibre innovation and investment, from which all communications providers benefit. We aim to keep it that way. So today we're announcing large-scale pilots this summer of ultrafast broadband with G.fast. We now think we can deploy this technology at scale which will enable us to deliver ultrafast speeds of up to 500Mbps to most of the UK within a decade.

I am pleased that we have agreed the 2014 triennial funding valuation and recovery plan with the Trustee of the BT Pension Scheme. The funding deficit is £7.0bn at 30 June 2014, an increase from 2011 reflecting the low interest rate environment. Over

the next three years we will pay £2.0bn, which is less than we paid over the previous three years. We have agreed a 16 year recovery plan reflecting the strength and sustainability of our future cash flow generation.

Mobility is a key growth area for us. We are making good progress on our due diligence in relation to a possible acquisition of EE and will make further announcements in due course. In the meantime, our Consumer mobile launch plans remain on track.

46. With regard to the Company's outlook, the press release stated, in pertinent part, as follows:

Outlook

Our outlook remains unchanged. We continue to expect underlying revenue excluding transit in 2014/15 to be broadly level with 2013/14 with growth in 2015/16. We expect adjusted EBITDA of £6.2bn - £6.3bn in 2014/15 with further growth in 2015/16. Normalised free cash flow is expected to be more than £2.6bn this year and to grow in 2015/16.

We continue to target a BBB+/Baa1 credit rating over the medium term. We expect to grow our dividends per share by 10% - 15% in both 2014/15 and 2015/16. We also intend to maintain our share buyback of around £300m in each of these years, to help counteract the dilutive effect of all-employee share options plans maturing over this period.

47. On May 7, 2015, BT Group issued a press release announcing its financial results for the fiscal fourth quarter and year end, the period ending March 31, 2015. For the year, the Company reported revenue of £17,851m, EBITDA of £6,271m, and adjusted earnings per share of 31.5p. Defendant Patterson, commenting on the results, stated, in pertinent part, as follows:

It's been a ground-breaking year for BT, in which we've made some key decisions and announced some major investments to underpin the future growth of the business. Profit before tax and free cash flow have both grown strongly and we have delivered or beaten the outlook we set at the start of the year.

Our superfast broadband network now passes more than three-quarters of the UK and we've announced plans to upgrade to ultrafast. This will be another multi-year investment by Openreach and is the right thing for both BT and the UK, providing even faster speeds in an already competitive market. We delivered our best ever performance for fibre connections in the fourth quarter with Openreach adding almost half a million premises to our network. Our retail business delivered a record-breaking 266,000 of these connections.

Shareholders approved our proposed £12.5 billion acquisition of EE last week. While we await regulatory approval, we have pushed ahead with our own mobility plans, launching our great value BT Mobile consumer service in March.

Our BT Sport TV channels are now in more than 5.2 million homes, with the customer base growing again in the quarter. We're pleased to have secured FA Premier League football rights for a further three years, and an extension with Aviva Premiership Rugby for four more years. With exclusive live football from the UEFA Champions League and UEFA Europa League, we'll be showing even more top sporting action from this summer.

For our business customers, we launched a number of innovative services this year including BT Assure Threat Defence, BT One Phone and BT Cloud Voice. And while in the UK public sector trading remains tough, we continue to see good growth in Asia and the Middle East.

We will continue to deliver on our investments and improve the service we provide to our customers. This year we recruited 2,500 new engineers and more than 500 new agents into our UK contact centres, with over 500 new apprentices across the group. Each of our customer-facing lines of business made improvements in service this year. We have increased the speed of service delivery, repaired faults faster and fixed more customer issues first time. But we recognise we're not yet where we want to be and this will continue to be a priority for us.

We made further progress with transforming our costs, contributing to a 6% decline in operating costs in the fourth quarter. We've reorganised our business, increased productivity and streamlined our processes.

Our performance during the year is reflected in our full year dividend, which is up 14%. Our results and the investments we are making position us well for the future and enable us to increase our free cash flow outlook for the coming year.

48. With regard to the Company's outlook, the press release stated, in pertinent part, as follows:

Outlook for 2015/16:

Our outlook for 2015/16, which is for BT Group excluding EE, is as follows:

- We continue to expect growth in underlying revenue excluding transit in 2015/16
- We expect modest growth in adjusted EBITDA. This is despite a year-on-year impact of around £170m due to lower income from both ladder pricing and the sale of redundant copper, a higher pensions operating charge and higher leaver costs. We will also incur costs relating to the launch of our UEFA Champions League and UEFA Europa League content in the year

- Normalised free cash flow is expected to be around £2.8bn. This compares with £2,830m in 2014/15 and is despite an increase of around £90m in ordinary pension contributions
- No change to our dividend and share buyback outlook

49. On May 21, 2015, the Company filed its annual report on Form 20-F with the SEC for the period ending March 31, 2015. With regard to BT Group's "Internal control over financial reporting," the annual report stated, in pertinent part, as follows:

Internal control over financial reporting

BT's management is responsible for establishing and maintaining adequate internal control over financial reporting for the group. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with IFRS. Management conducted an assessment of the effectiveness of internal control over financial reporting based on the framework for internal control evaluation contained in the Revised Guidance for Directors on the UK Governance Code published by the Financial Reporting Council (the Turnbull Guidance).

Based on this assessment, management has concluded that at 31 March 2015, BT's internal control over financial reporting was effective.

There were no changes in BT's internal control over financial reporting that occurred during 2014/15 that have materially affected, or are reasonably likely to have materially affected, the group's internal control over financial reporting. Any significant deficiency, as defined by the US Public Company Accounting Oversight Board (PCAOB), in internal control over financial reporting, is reported to the Audit & Risk Committee. PricewaterhouseCoopers LLP, which has audited the consolidated financial statements for 2014/15, has also audited the effectiveness of the group's internal control over financial reporting under Auditing Standard No. 5 of the PCAOB.

50. Moreover, the annual report included signed certifications by Defendants Patterson and Chanmugam, representing that the financial information contained therein was accurate and that the Company's internal and disclosure controls were effective.

51. On July 30, 2015, BT Group issued a press release announcing its financial results for the fiscal first quarter, the period ending June 30, 2015. For the quarter, the Company reported

revenue of £4,278m, EBITDA of £1,449m, and adjusted earnings per share of 6.7p. Defendant Patterson, commenting on the results, stated, in pertinent part, as follows:

This is an exciting time at BT. We continue to invest heavily in our superfast fibre broadband network. It now reaches around 80% of all UK premises and we will work with government to help take fibre broadband to 95% of the country by the end of 2017. Our technical trials of ultrafast broadband using G.fast are progressing well; we're on target to start large-scale customer trials this summer.

Our mobile plans have got off to a good start with more than 100,000 consumer mobile customers signed up in the first three months. We're also looking forward to completing our acquisition of EE, which will allow us to create a true UK digital champion, providing customers with greater choice and value and helping to deliver the UK's connected future.

We're launching BT Sport Europe in the next few days, the new home of UEFA Champions League football, which is free for our BT TV customers. We are also leading the way on Ultra HD TV. Our BT Sport Ultra HD channel will be the first live sports channel in Europe offering picture quality four times that of normal high definition.

We have also invested further in improving customer service and Openreach is running ahead of all 60 minimum service levels set by Ofcom for this year. And we are engaging with Ofcom as part of its Strategic Review of Digital Communications which offers scope for deregulation and the potential to create a more level playing field in pay-TV.

The investments we are making in our business and customer service are building a strong platform for growth. And our financial results show we're on track to achieve our outlook for the full year.

52. With regard to the Company's outlook, the press release stated, in pertinent part, as follows:

2015/16 outlook

Our outlook is unchanged. We continue to expect growth in underlying revenue excluding transit in 2015/16 with modest growth in adjusted EBITDA. Normalised free cash flow is expected to be around £2.8bn. We continue to expect to grow our dividend per share by 10%-15% and to undertake a share buyback of around £300m to help offset the dilutive effect of maturing all-employee share plans. We are targeting a BBB+/Baa1 credit rating over the medium term.

53. On October 29, 2015, BT Group issued a press release announcing its financial results for the fiscal second quarter, the period ending September 30, 2015. For the quarter, the Company reported revenue of £4,381m, EBITDA of £1,442m, and adjusted earnings per share of 6.9p. Defendant Patterson, commenting on the results, stated, in pertinent part, as follows:

We've delivered a good financial performance with revenue up 2% this quarter.

Fibre broadband is a success story and we continue to invest heavily to help the UK remain a broadband leader among major European nations. Our open access fibre network now passes 24 million premises and we are not stopping there. We want to get fibre broadband to as many people as possible and we are also pushing ahead with our plans to get ultrafast broadband to ten million premises by the end of 2020. Market-wide demand for fibre remains strong with fibre net additions up 21% as we hit the five million milestone for homes and businesses connected.

We've seen good demand for BT Sport Europe and this has helped us add a record number of BT TV customers in the quarter. Its contribution has been better than we expected, helping drive a 7% increase in BT Consumer revenue. Mobile is another growth area and I am pleased our consumer customer base now stands at more than 200,000. And I am also pleased that yesterday, the Competition and Markets Authority provisionally approved our planned acquisition of EE, unconditionally without remedies.

We are making step changes to improve customer service, as part of our group-wide programme. Openreach's recently launched 'View my Engineer' service is going down well. The 3,000 engineers we hired in the last 18 months are helping us fix faults faster and provide new services sooner. We have also created more than 1,000 new contact centre jobs in the UK, with hundreds more to come, to meet our 2016 commitment for more than 80% of consumer customer calls to be answered in the UK. And we have plans to go even further in years to come.

Our strategy is delivering and our results show we're on track to achieve our outlook for the year.

54. With regard to the Company's outlook, the press release stated, in pertinent part, as follows:

2015/16 outlook

Our outlook is unchanged. We continue to expect growth in underlying revenue excluding transit in 2015/16 with modest growth in adjusted EBITDA. Normalised free cash flow is expected to be around £2.8bn. We continue to expect to grow our dividend per share by 10%-15% and to complete a share buyback of around £300m

to help offset the dilutive effect of maturing all-employee share plans. We are targeting a BBB+/Baa1 credit rating over the medium term.

55. On February 1, 2016, BT Group issued a press release announcing its financial results for the fiscal third quarter, the period ending December 31, 2015. For the quarter, the Company reported revenue of £4,594m, EBITDA of £1,613m, and adjusted earnings per share of 9.0p. Defendant Patterson, commenting on the results, stated, in pertinent part, as follows:

This is a strong set of results with good numbers across the board. Revenue was up 4.7% this quarter, our best result for more than seven years. We are making good progress towards our goal of sustainable profitable revenue growth.

BT Consumer had a standout quarter, increasing its overall line base for the first time in well over a decade and capturing 71% of new broadband customers. Good customer growth in broadband, TV and mobile helped to grow ARPU by 7%. Customers like what we're offering, whether that's superfast broadband, Champions League football or mobile data bundles. BT Global Services also did well with good revenue growth in continental Europe and Asia.

These are exciting times at BT. We have completed our acquisition of EE, the UK's best mobile network provider, and are confident that we'll deliver the anticipated cost and revenue synergies. EE will become a separate consumer-focused line of business within the group. We're also creating a new organisation to better serve our business and public sector customers in the UK, combining BT Business with EE's business division and parts of BT Global Services' UK operations. BT Global Services will focus on serving multinational companies and major customers outside the UK.

Service continues to be a priority. Our engineers have worked tirelessly over the festive period to restore service after some of the worst flooding on record. We're investing to improve service and are creating a further 1,000 contact centre jobs in the UK, to help us meet our commitment to answer more than 80% of consumer customer calls from within the UK by the end of this year.

Fibre is underpinning the growth at Openreach with almost half a million premises taking up the service this quarter via dozens of service providers. The fibre market is highly competitive and growing all the time, which is great news for the UK economy. Our superfast fibre broadband network is available to well over 24m homes and businesses. We will help take fibre coverage to 95% of the country by the end of 2017, with plans to go even further. Our G.fast trials are progressing well. The UK is poised to take the important journey from superfast to ultrafast broadband and BT is well placed to lead the charge.

56. With regard to the Company's outlook, the press release stated, in pertinent part, as follows:

2015/16 outlook for standalone BT

We expect underlying revenue excluding transit to grow by 1% to 2% for the full year. While underlying revenue excluding transit grew 2.3% in the first nine months, our revenue trend in the fourth quarter will be negatively impacted by the ladder pricing revenue we recognised last year.

We continue to expect modest growth in adjusted EBITDA with normalised free cash flow to be around £2.8bn. We expect to grow our dividend per share by 10%-15% and to complete a share buyback of around £300m to help offset the dilutive effect of maturing all-employee share plans.

57. On May 5, 2016, BT Group issued a press release announcing its financial results for the fiscal fourth quarter and year end, the period ending March 31, 2016. For the year, the Company reported revenue of £18,909m, EBITDA of £6,580m, and adjusted earnings per share of 33.2p. Defendant Patterson, commenting on the results, stated, in pertinent part, as follows:

This has been a landmark year for BT. We've completed our acquisition of EE, the UK's best 4G mobile network provider, we've passed more than 25m premises with fibre and we've also delivered a strong financial performance. We've met our outlook with our main revenue measure up 2.0%, the best performance for more than seven years. Our profit before tax was up a healthy 9%.

Customers want to be online wherever they are and we will be there for them. Our multi-billion pound investment plans will see both fibre and 4G reach 95% of the UK and we won't stop there. The UK is a digital leader and our investment in ultrafast broadband will help it stay ahead.

The integration of EE is going well and we now see the opportunity to deliver more synergies than we originally expected, and at a lower cost. And we're reorganising our business to better serve customers both in the UK and internationally.

We've invested across the business and are seeing good results. Our BT Sport audiences are up 45 per cent this year following the launch of UEFA Champions League and UEFA Europa League content. BT Mobile has done well since its launch, building a customer base of over 400,000. And in the business market, we've seen very strong demand for our cyber security expertise with our security business growing by 24%.

Customers are benefiting from our investments but we plan to do more when it comes to service, to meet customers' rising expectations. That's why Openreach is tackling missed appointments, why BT Consumer will be upgrading service levels to next day repair and why we've hired 900 engineers. We've also recruited more than 900 extra contact centre staff. This will enable us to return EE and BT Consumer contact centre work to the UK.

Our strong overall performance for the year is reflected in our full year dividend, which is up 13%. Our results and the investments we're making position us well to continue to grow in the coming years. In light of our confidence we are setting out financial and dividend guidance for the next two years.

58. With regard to the Company's outlook, the press release stated, in pertinent part, as follows:

Our outlook for 2016/17 and 2017/18 is as follows:

	2016/17	2017/18
change in underlying revenue excluding transit	Growth	Growth
EBITDA	c. £7.9bn	Growth
Normalised free cash flow	£3.1bn-£3.2bn	>£3.6bn
Dividend per share	≥10% growth	≥10% growth
Share buyback	c.£200m	

Our 2016/17 outlook assumes a net investment of around £100m against EBITDA and normalised free cash flow from launching handset offerings to BT Mobile customers.

Also included in the above normalised free cash flow outlook, we expect around £100m of EE integration capital expenditure in each of 2016/17 and 2017/18. We also expect capital expenditure of up to £300m in 2016/17 and around £100m in 2017/18 relating to the Emergency Services Network contract won by EE in December 2015.

59. On May 19, 2016, the Company filed its annual report on Form 20-F with the SEC for the period ending March 31, 2016. With regard to BT Group's "Internal control over financial reporting," the annual report stated, in pertinent part, as follows:

Internal control over financial reporting

BT's management is responsible for establishing and maintaining adequate internal control over financial reporting for the group. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with IFRS. Management conducted an assessment of the effectiveness of internal control over financial reporting based on the framework for internal control evaluation contained in the FRC Guidance on internal control (Turnbull), which is now reflected in the FRC Guidance on risk management, internal control and related financial and business reporting.

The scope of management's assessment of the effectiveness of our internal control over financial reporting included all relevant operations, except for the operation of the subsidiary EE Limited, which we acquired in January 2016. This exclusion is in accordance with the SEC's general guidance that an assessment of a recently acquired business may be omitted from our scope in the year of acquisition. EE Limited constituted 37% of total assets and 5% of the external revenue of the consolidated financial statements of the group for the year ended 31 March 2016.

Management has concluded that at 31 March 2016, BT's internal control over financial reporting was effective.

There were no other changes in BT's internal control over financial reporting that occurred during 2015/16 that have materially affected, or are reasonably likely to have materially affected, the group's internal control over financial reporting. Any significant deficiency, as defined by the US Public Company Accounting Oversight Board (PCAOB), in internal control over financial reporting, is reported to the Audit & Risk Committee.

PricewaterhouseCoopers, which has audited the consolidated financial statements for 2015/16, has also audited the effectiveness of the group's internal control over financial reporting under Auditing Standard No. 5 of the PCAOB.

60. Moreover, the annual report included signed certifications by Defendants Patterson and Chanmugam, representing that the financial information contained therein was accurate and that the Company's internal and disclosure controls were effective.

61. On July 28, 2016, BT Group issued a press release announcing its financial results for the fiscal first quarter, the period ending June 30, 2016. For the quarter, the Company reported revenue of £5,775m, EBITDA of £1,818m, and adjusted earnings per share of 6.6p. Defendant Patterson, commenting on the results, stated, in pertinent part, as follows:

We've made a good start to the year, with growth in revenue and strong cash flow. We're on track to deliver our full year outlook.

Our integration of EE is progressing well, alongside our business reorganisation that took effect on 1 April. EE performed strongly, both financially and commercially, and our customers are seeing the initial benefits of our acquisition with BT Sport now available to EE pay monthly customers. We remain focused on improving customer experience and 100% of EE pay monthly calls are now handled in UK and Ireland contact centres. We've reduced engineer missed appointments by more than a third since last quarter and Openreach is again ahead on all 60 minimum service levels set by Ofcom.

Fibre broadband is available to well over 25m premises and take-up remains strong. At a retail level, we performed well achieving a 79% share of broadband net adds in the quarter. We were pleased to renew our FA Cup rights during the quarter and we look forward to showing more games from the Premier League at a much better time slot, starting in two weeks. Our customers can also look forward to all the exclusive live action from the UEFA Champions League and UEFA Europa League once again this year.

Our investment plans remain central to our future and so we will be rolling out further fibre in the coming months, as well as 4G through the Emergency Services Network contract. Our aim is to make these services as universally available as we can, whilst also deploying a new generation of ultrafast broadband. Such investment requires regulatory clarity, particularly in these uncertain times.

Having listened to Ofcom and industry, we have set out our proposals for greater independence and transparency for Openreach. Our proposals can form the basis for a fair, proportionate and sustainable regulatory settlement and we believe they can also enable Ofcom to bring its Digital Communications Review to a speedier conclusion. We will continue to engage with Ofcom over the coming months.

62. With regard to the Company's outlook, the press release stated, in pertinent part, as follows:

Outlook

Our outlook is unchanged.

We continue to expect growth in underlying revenue excluding transit on a pro forma basis in 2016/17. Adjusted EBITDA is expected to be around £7.9bn, after a net investment of around £100m in launching handset offerings to BT mobile customers. Normalised free cash flow is expected to be £3.1bn–£3.2bn. This is after up to £300m of upfront capital expenditure in the Emergency Services Network (ESN) contract, as well as around £100m of EE integration capital expenditure.

For 2017/18, we expect growth in underlying revenue excluding transit and adjusted EBITDA. We also expect to incur capital expenditure of around £100m on the ESN contract and around £100m again on integration. We are confident in our cash flow generation, as a result of the investments we are currently making, the ability of our business to respond to a dynamic industry environment, and ongoing cost transformation and synergy realisation opportunities. As such, we expect to generate normalised free cash flow of more than £3.6bn in 2017/18.

We expect to grow our dividend per share by at least 10% in both 2016/17 and 2017/18. We expect to buy back around £200m of shares in 2016/17 to help counteract the dilutive effect of all-employee share option plans maturing in the year. This is below the £315m buyback we completed in 2015/16 reflecting the lower number of shares that are expected to be required for our share option plans.

63. The statements referenced above in ¶¶28, 29, 31-62 were materially false and misleading when made because they misrepresented or failed to disclose the following adverse facts, which were known to Defendants or recklessly disregarded by them:

(a) that the Company’s Italian business, which is a part of the BT Group’s Global Services division, was overstating earnings over a number of years;

(b) that the Company was engaging in improper accounting practices, which included a “complex set of improper sales, purchase, factoring and leasing transactions”;

(c) BT Group’s internal controls were so materially inadequate that its reported results were not reliable; and

(d) due to the foregoing, Defendants: (i) were forced to take a write down of approximately £530m; and (ii) lacked a reasonable basis for their positive statements about BT Group’s then-current business and future financial prospects.

64. On October 27, 2016, BT Group issued a press release announcing its financial results for the fiscal second quarter, the period ending September 30, 2016. For the quarter, the Company reported revenue of £6,007m, EBITDA of £1,888m, and adjusted earnings per share of 7.2p. Defendant Patterson, commenting on the results, stated, in pertinent part, as follows:

This is a positive set of results, both operationally and financially, and we remain on track to achieve our full year outlook. We've made good progress on the integration of EE and the delivery of our synergy targets. Our consumer facing lines of business have performed well, but in the enterprise space, UK public sector continues to be a challenging market. Across the group, we continue to drive cost reduction and productivity improvements. Customer experience remains a key priority, and we're stepping up our investments in the second half of the year. And we'll continue to invest in our ultrafast and 4G plans in 2017 and beyond. Ofcom's consultation on the Digital Communications Review closed earlier this month; we've submitted our response and will continue to engage with Ofcom to reach the best outcome for the UK.

65. With regard to the Company's outlook, the press release stated, in pertinent part, as follows:

Outlook

Our outlook is unchanged.

We continue to expect growth in underlying revenue excluding transit adjusted for the acquisition of EE in 2016/17. Adjusted EBITDA is expected to be around £7.9bn, after a net investment of around £100m in launching handset offerings to BT mobile customers. Normalised free cash flow is expected to be £3.1bn–£3.2bn. This is after up to £300m of upfront capital expenditure in the Emergency Services Network (ESN) contract, as well as around £100m of EE integration capital expenditure.

For 2017/18, we expect growth in underlying revenue excluding transit and adjusted EBITDA. We also expect to incur capital expenditure of around £100m on the ESN contract and around £100m again on integration. We are confident in our cash flow generation, as a result of the investments we are currently making, the ability of our business to respond to a dynamic industry environment, and ongoing cost transformation and synergy realisation opportunities. As such, we expect to generate normalised free cash flow of more than £3.6bn in 2017/18.

We expect to grow our dividend per share by at least 10% in both 2016/17 and 2017/18. We've completed our share buyback programme having bought £206m of shares in 2016/17 to help counteract the dilutive effect of all-employee share option

plans maturing in the year. This is below the £315m buyback we completed in 2015/16 reflecting the lower number of shares required for our share option plans.

66. Moreover, BT Group announced that the Company would have to take a write down of approximately £145m due to “certain historical accounting errors” at its BT Italia division. In that regard, the press release stated, in pertinent part, as follows:

BT Italia investigation

Following allegations of inappropriate management behaviour in our BT Italia operations, we have conducted an initial internal investigation. This included a review of accounting practices during which we have identified certain historical accounting errors and reassessed certain areas of management judgement.

We have written down the value of items on the balance sheet by £145m. This is our current best estimate of the financial impact based on our internal investigation. The write down relates to balances that have built up over a number of years and our assessment is that the errors have not materially impacted the group’s reported earnings over the previous two years. The amount has been charged as a specific item in our results for the quarter. As a non-cash item in the period it does not impact normalised free cash flow.

A full investigation of these matters is ongoing and we have appointed external advisers to assist with this. Appropriate action will be taken as the investigation progresses.

Our outlook is not affected.

67. In reaction to these announcements, on October 27, 2016, the price of BT Group ADRs fell \$0.57 per ADR, or 2.4%, to close at \$23.25 per ADR, on heavy trading volume. However, the Company continued to conceal the true extent of its problems.

68. Then, on January 24, 2017, the Company issued a press release announcing an update of its investigation into BT’s Italian business and on the Company’s outlook. According to the press release, the Company stated that it now expects to take a write down of approximately £530m – almost 4 times the original amount the Company estimated a few months prior. In that regard, the Company stated, in pertinent part, as follows:

Since [the October 27, 2017 press release] we have progressed the investigation, which has included an independent review by KPMG LLP of the accounting practices in our Italian operations and our own comprehensive balance sheet review. These investigations have revealed that the extent and complexity of inappropriate behaviour in the Italian business were far greater than previously identified and have ***revealed improper accounting practices and a complex set of improper sales, purchase, factoring and leasing transactions.*** These activities have resulted in the overstatement of earnings in our Italian business over a number of years.

The investigation into the financial position of our Italian business is now substantially complete. ***The adjustments identified have increased from the £145m announced in our half-year update to a total of around £530m.*** We are still evaluating what proportion of the total adjustments should be treated as prior year errors, and what proportion should be treated as the reassessment in the current year of management estimates. Work is also ongoing to establish how these adjustments should be reflected in BT Group's financial statements for the current and previous periods in light of applicable accounting requirements.

In addition, we would expect the matters described above to result in a reduction in our Q3 adjusted revenue and adjusted EBITDA of around £120m, and in a reduction in Q3 normalised free cash flow of around £100m. For 2016/17 as a whole, relative to our prior outlook, we would expect a decrease in adjusted revenue of around £200m, in adjusted EBITDA of around £175m, and of up to £500m of normalised free cash flow due to the EBITDA impact and the one-off unwind of the effects of inappropriate working capital transactions. For 2017/18, we would expect a similar annual impact to adjusted revenue and adjusted EBITDA as in 2016/17, with the EBITDA impact flowing through to normalised free cash flow. An updated outlook for the Group reflecting the above and other matters is set out below.

The EBITDA contribution of the Italian business included in the Group's reported EBITDA for the financial year ended 31 March 2016 was around 1%.

The improper behaviour in our Italian business is an extremely serious matter, and we have taken immediate steps to strengthen the financial processes and controls in that business. ***We suspended a number of BT Italy's senior management team who have now left the business. We have also appointed a new Chief Executive of BT Italy who will take charge on 1 February 2017. He will review the Italian management team and will work with BT Group Ethics and Compliance to improve the governance, compliance and financial safeguards in our Italian business.***

Further, we are conducting a broader review of financial processes, systems and controls across the Group. The BT Group Remuneration Committee will consider the wider implications of the BT Italy investigation. [Emphasis added.]

69. With regard to the Company's investigation and subsequent write down, Defendant Patterson stated, in pertinent part, as follows:

We are deeply disappointed with the improper practices which we have found in our Italian business. We have undertaken extensive investigations into that business and are committed to ensuring the highest standards across the whole of BT for the benefit of our customers, shareholders, employees and all other stakeholders.

70. With regard to the Company's revised outlook, the press release stated, in pertinent part, as follows:

Update on BT Group outlook

For Q3, with the exception of the financial impact of the BT Italy investigation, we expect to report results broadly in line with market expectations. Our consumer-facing businesses are set to report good revenue growth, with Consumer delivering continued volume and ARPU growth and EE achieving revenue growth for the first time. Within Business and Public Sector, Corporate and SME continue to benefit from the integration of EE and strong mobile demand, while Wholesale and Ventures is seeing an improving underlying revenue trend. Openreach is expected to report its highest ever fibre broadband connections, and an improvement in customer experience, including halving missed appointments year on year.

Looking ahead, however, the outlook for UK public sector and international corporate markets has deteriorated. For Business and Public Sector, this means we now expect a double-digit year on year percentage decline in Q4 underlying EBITDA adjusted for the acquisition of EE.

As a result of the outcome of the BT Italy investigation and the pressures in the UK public sector and international corporate markets, we now expect underlying revenue excluding transit adjusted for the acquisition of EE to be broadly flat in 2016/17 and adjusted EBITDA to be around £7.6bn. Normalised free cash flow is now expected to be around £2.5bn.

For 2017/18, we now expect both underlying revenue excluding transit and adjusted EBITDA to be broadly flat year on year. We expect normalised free cash flow to be £3.0bn - £3.2bn.

This outlook is provided on the basis of our existing investment plans.

We continue to expect to grow our dividend per share by at least 10% in both 2016/17 and 2017/18. We have completed our £206m buy back of shares in 2016/17 to help counteract the dilutive effect of all-employee share option plans maturing in the year.

In summary, our outlook for 2016/17 and 2017/18 is as follows:

	2016/17	2017/18
Change in underlying revenue ² excluding transit ³	Broadly flat	Broadly flat
EBITDA ⁴	c.£7.6bn	Broadly flat
Normalised free cash flow ⁵	c.£2.5bn	£3.0bn - £3.2bn
Dividend per share	≥10% growth	≥10% growth
Share buyback	£206m	

¹ Average Revenue Per User

² Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals

³ Measured as though EE had been part of the group from 1 April 2015

⁴ Before specific items

⁵ Before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

71. In reaction to these announcements, on January 24, 2017, the price of BT Group ADRs fell \$5.05 per ADR, or 21%, to close at \$19.38 per ADR, on extremely heavy trading volume.

72. Moreover, on January 24, 2017, in an article entitled “Dodgy Italian Job Savages BT Earnings, Share Price Tanks,” *LightReading* reported that BT Global suspended a number of senior executives in Italy, including Gianluca Cimini, the former BT Italia chief executive, and Stefania Truzzoli, the subsidiary’s chief operating officer, and appointed a new chief executive. On that same day, in an article entitled “BT European chief to resign over Italian scandal,” the *BBC* reported that Corrado Sciolla, president of BT Global Services - Continental Europe, was expected to resign shortly.

73. The market for BT Group securities was open, well-developed and efficient at all relevant times. As a result of the materially false and misleading statements and omissions alleged herein, BT Group securities traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired BT Group securities relying upon the integrity of the market price of BT Group securities and market information relating to BT Group, and have been damaged thereby.

74. During the Class Period, Defendants materially misled the investing public, thereby inflating the price of BT Group securities, by publicly issuing false and misleading statements and omitting to disclose material facts necessary to make Defendants' statements, as set forth herein, not false and misleading. Said statements and omissions were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about the Company, its business and operations, as alleged herein.

75. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused, or were a substantial contributing cause of, the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false or misleading statements about BT Group operations, acquisitions and future financial prospects. These material misstatements and omissions had the cause and effect of creating in the market an unrealistically positive assessment of BT Group securities and its business, thus causing the Company's shares to be overvalued and artificially inflated at all relevant times. Defendants' materially false and misleading statements during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company's shares at artificially inflated prices, thus causing the damages complained of herein.

ADDITIONAL SCIENTER ALLEGATIONS

76. As alleged herein, Defendants acted with scienter in that Defendants knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, Defendants, by virtue of their receipt of

information reflecting the true facts regarding BT Group, their control over, and/or receipt and/or modification of BT Group's allegedly materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning BT Group, participated in the fraudulent scheme alleged herein.

LOSS CAUSATION

77. During the Class Period, as detailed herein, Defendants engaged in a scheme to deceive the market and a course of conduct that artificially inflated the price of BT Group Securities and operated as a fraud or deceit on Class Period purchasers of BT Group securities by failing to disclose and misrepresenting the adverse facts detailed herein. As Defendants' prior misrepresentations and fraudulent conduct were disclosed and became apparent to the market, the price of BT Group securities declined significantly as the prior artificial inflation came out of the Company's securities price.

78. As a result of their purchases of BT Group securities during the Class Period, Plaintiff and the other Class members suffered economic loss, *i.e.*, damages, under the federal securities laws. Defendants' false and misleading statements had the intended effect and caused BT Group securities to trade at artificially inflated levels throughout the Class Period, reaching as high as \$37.49 per ADR on November 19, 2015.

79. By concealing from investors the adverse facts detailed herein, Defendants presented a misleading picture of BT Group's business, products and operations. When the truth about the Company was revealed to the market, the price of BT Group securities fell significantly. These declines removed the inflation from the price of BT Group securities, causing real economic loss to investors who had purchased BT Group securities during the Class Period.

80. The declines in the price of BT Group securities after the corrective disclosures came to light were a direct result of the nature and extent of Defendants' fraudulent misrepresentations

being revealed to investors and the market. The timing and magnitude of the price declines in BT Group securities negates any inference that the loss suffered by Plaintiff and the other Class members was caused by changed market conditions, macroeconomic or industry factors or Company-specific facts unrelated to Defendants' fraudulent conduct.

81. The economic loss, *i.e.*, damages, suffered by Plaintiff and the other Class members was a direct result of Defendants' fraudulent scheme to artificially inflate the price of BT Group securities and the subsequent significant decline in the value of BT Group securities when Defendants' prior misrepresentations and other fraudulent conduct were revealed.

**Applicability of Presumption of Reliance:
Fraud on the Market Doctrine**

82. At all relevant times, the market for BT Group securities was an efficient market for the following reasons, among others:

(a) BT Group ADRs met the requirements for listing, and were listed and actively traded on the NYSE, a highly efficient, electronic stock market;

(b) as a regulated issuer, BT Group filed periodic public reports with the SEC and the NYSE;

(c) BT Group regularly communicated with public investors via established market communication mechanisms, including regular disseminations of press releases on the national circuits of major newswire services and other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

(d) BT Group was followed by securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

83. As a result of the foregoing, the market for BT Group securities promptly digested current information regarding BT Group from all publicly available sources and reflected such information in the prices of the securities. Under these circumstances, all purchasers of BT Group securities during the Class Period suffered similar injury through their purchase of BT Group securities at artificially inflated prices and a presumption of reliance applies.

COUNT I

Violation of Section 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder Against Defendants

84. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

85. During the Class Period, Defendants disseminated or approved the materially false and misleading statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

86. Defendants: (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (c) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities during the Class Period.

87. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for BT Group securities. Plaintiff and the Class would not have purchased BT Group securities at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by Defendants' misleading statements.

88. As a direct and proximate result of these Defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their purchases of BT Group securities during the Class Period.

COUNT II

Violation of Section 20(a) of the Exchange Act Against the Individual Defendants

89. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

90. The Individual Defendants acted as controlling persons of BT Group within the meaning of Section 20(a) of the Exchange Act as alleged herein. By reason of their positions as officers and/or directors of BT Group, and their ownership of BT Group stock, the Individual Defendants had the power and authority to cause BT Group to engage in the wrongful conduct complained of herein.

91. By reason of such conduct, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act.

PRAYER FOR RELIEF

WHEREFORE, the Plaintiff, on behalf of himself and the Class, pray for judgment as follows:

A. Determining that this action is a proper class action, designating Plaintiff as Lead Plaintiff and certifying Plaintiff as a Class representative under Rule 23 of the Federal Rules of Civil Procedure and Plaintiff's counsel as Lead Counsel;

B. Awarding compensatory damages in favor of Plaintiff and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

C. Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

D. Awarding such other relief as the Court deems just and proper.

JURY TRIAL DEMANDED

Plaintiffs hereby demand a trial by jury.

DATED: February 1, 2017

ROBBINS GELLER RUDMAN
& DOWD LLP
SAMUEL H. RUDMAN
MARIO ALBA JR.

/s/ Samuel H. Rudman

SAMUEL H. RUDMAN

58 South Service Road, Suite 200
Melville, NY 11747
Telephone: 631/367-7100
631/367-1173 (fax)
srudman@rgrdlaw.com
malba@rgrdlaw.com

HOLZER & HOLZER, LLC
COREY D. HOLZER
MARSHALL P. DEES
200 Ashford Center North, Suite 300
Atlanta, GA 30338
Telephone: 770/392-0090
770/3920029 (fax)
cholzer@holzerlaw.com
mdees@holzerlaw.com

Attorneys for Plaintiff

**CERTIFICATION OF NAMED PLAINTIFF
PURSUANT TO FEDERAL SECURITIES LAWS**

The undersigned declares, as to the claims asserted under the federal securities laws, that:

Plaintiff has reviewed the initial complaint filed in this action.

Plaintiff did not purchase and/or acquire the security that is the subject of this action at the direction of Plaintiff's counsel or in order to participate in any private action under the federal securities laws.

Plaintiff is willing to serve as a representative party on behalf of the class, including providing testimony at deposition and trial, if necessary. I understand that this is not a claim form, and that my ability to share in any recovery as a member of the class is not dependent upon execution of this Plaintiff Certification.

Plaintiff's transactions in the security that is the subject of this action during the Class Period are as follows:

Purchases:

<u>Name of Company</u>	<u>Date(s) Purchased</u>	<u># Shares Purchased</u>	<u>Cost/Share</u>
BT	7/28/2016	250	27.61
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Sales:

<u>Name of Company</u>	<u>Date(s) Sold</u>	<u># Shares Sold</u>	<u>Proceeds/Share</u>
BT	N/A	0	N/A

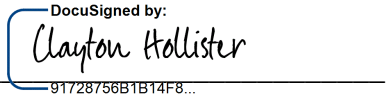
During the three (3) years prior to the date of this certification, Plaintiff has not sought to serve or served as a class representative in an action filed under the federal securities laws except for the following (if any):

RINO

Plaintiff will not accept any payment for serving as a representative party on behalf of the class beyond Plaintiff's pro rata share of any recovery, except such reasonable costs and expenses (including lost wages) directly relating to the representation of the class as ordered or approved by the court.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 27 day of January, 2017 in Meridian, Idaho
City State

(Signature) X 
91728756B1E14F8...
(Print Name) Clayton Hollister

ClassAction.org

This complaint is part of ClassAction.org's searchable class action lawsuit database and can be found in this post: [BT Group, Top Brass Facing Securities Class Action](#)
