

BT GROUP PLC
Form 6-K
June 01, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act 1934

Report on Form 6-K dated June 1, 2005

BT Group plc

(Translation of registrant's name into English)

BT Centre
81 Newgate Street
London EC1A 7AJ
England

(Address of principal executive offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F

Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes

No

This Report on Form 6-K is incorporated by reference into the registrant's Annual Report on Form 20-F for the year ended March 31, 2005 (Commission file number 1-8819).

Enclosures: BT Group plc - Annual Review 2005 and Notice of Annual General Meeting 2005

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BT Group plc

By: /s/ Patricia Day

Name: Patricia Day

Title: Assistant Secretary

Date: June 1, 2005

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Growth through transformation

Annual Review and summary financial statement 2005

Growth through transformation

BT is one of the world's leading providers of communications solutions serving customers in Europe, the Americas and Asia Pacific. Our principal activities include networked IT services, local, national and international telecommunications services, and higher-value broadband and internet products and services. In the UK, we serve over 20 million business and residential customers, as well as providing network services to other operators.

Highlights

- Group turnover of £18.6 billion
- New wave turnover of £4.5 billion, up 32%
- Profit before taxation, goodwill amortisation and exceptional items of £2.1 billion, up 4%
- Earnings per share before goodwill amortisation and exceptional items of 18.1 pence, up 7%
- Net debt reduced from £8.4 billion to £7.8 billion
- Full year dividend of 10.4 pence, up 22%
- Broadband end users of 4.9 million, up 123%

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In this Annual Review, references to "BT Group", "BT", "the group", "the company", "we" or "our" are to BT Group plc (which includes the activities of British Telecommunications plc) and its subsidiaries, or any of them as the context may require.

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Chairman's message

Our results for the 2005 financial year were strong. New wave revenues grew by 32% to £4.5 billion, and now represent nearly a quarter of our business. Earnings per share have more than doubled over the past three years and net debt is more than £20 billion lower than in 2001.

Earnings per share in the 2005 financial year, before goodwill amortisation and exceptional items, grew by 7% to 18.1 pence. While continuing to invest for the future, we generated free cash flow of £2.3 billion, up 10%.

The news on dividends is positive. We are recommending a full-year dividend of 10.4 pence per share, a pay out ratio of 57% of earnings before goodwill amortisation and exceptional items, compared to 50% last year. We continue with our progressive dividend policy. The dividend for the 2006 financial year will be at least 60% of underlying earnings: subject to the group's overall financial position, we expect our pay out ratio to rise to around two-thirds of underlying earnings by the 2008 financial year.

We continued with our share buy back programme in the 2005 financial year. This is being funded from cash generated over and above that required for servicing our debt. We have reduced net debt to below £8 billion, a level with which we are comfortable.

Business progress

In support of our strategy for transformation and growth, your Board gave backing during the year for a targeted series of acquisitions that will help to build our capabilities as one of the world's foremost global networked IT services companies. These acquisitions offered value for money, had a compelling strategic fit and brought capabilities to strengthen BT globally. In addition, passing the five million mark for broadband connections in the UK in early April was a key moment in the history of your company.

Regulation

BT welcomed the Strategic Review of Telecommunications by Ofcom. During the year we have worked to help influence and shape their thinking and made a radical proposal for a new regulatory landscape in the UK. We continued to argue strongly that structural separation was not in shareholders' or customers' interests. We look forward to the published outcome. Our position remains that a strategic and flexible regulatory regime, together with rapid deregulation wherever possible, is vital to meeting customers' developing needs and creating the conditions in which we, and others, can continue to invest with confidence.

Board membership

There were a number of changes to your Board during the 2005 financial year. I would like to welcome Hanif Lalani as our new Group Finance Director. Ian Livingston, who had occupied the finance role with distinction for three years, was appointed Chief Executive BT Retail with effect from February 2005. It is a testament to the strength of BT's management team generally that we were able to appoint people from inside the company to such key roles. I would also like to thank Pierre Danon, who left the Board in February, for his significant contribution as Chief Executive of BT Retail for the last four years.

Wider responsibilities

It is increasingly important that companies such as BT continue to be good corporate citizens, living up to our responsibilities to the communities in which we operate and to the environment. I'm proud to be able to report that, for the fourth year in a row, BT was the highest placed telecommunications company in the Dow Jones Sustainability Index. Our community programmes focus on those issues where communications really can make the difference; we have provided long-term support, for example, for a drama-based education programme to help develop young people's communications skills, and for the work of the children's charity ChildLine.

Like so many other companies and individuals, we wanted to respond to the devastating Asian tsunami in December 2004. We made a donation of £500,000 to the Disasters Emergency Committee (DEC) and we provided a live call centre for the unprecedented number of calls coming into the DEC. I'm particularly proud of the fact that so many of our employees were involved in fundraising activities and that 16 of our engineers travelled to the

affected area to help re-establish communications.

Outlook

The process of transformation on which your company embarked in 2001 is accelerating. That process is increasingly reflected in your company's results. We are well set for further success in the years ahead.

I'd like to thank shareholders for the loyalty they've shown. Your continued confidence — coupled with the loyalty of our customers and suppliers and the imagination and commitment of our employees — is fundamental to our transformation for growth.

Sir Christopher Bland

Chairman

18 May 2005

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Chief Executive's statement

Today, BT is a very different company from the one that I joined three years ago. As our customers' needs have changed and continue to change, so we have found and continue to find new ways of meeting those needs, investing in innovative products and services which add value to our customers and to BT. That, after all, is what being a service company means.

In 2005, convergence is at the heart of BT's strategy.

By convergence, we mean the ability to bring together our capabilities and capacities in new ways to make life better, simpler and cheaper for our customers. For our business customers this means productivity improvements; for consumers it's about new, easier to use services. For customers of all kinds it means a more joined-up communications experience.

So, for example, we offer our major corporate customers around the world a unique marriage of our networking experience and infrastructure with IT services. These used to be separate offerings, often supplied by different companies, but we're bringing them together in one place. This means that however much their operations are dispersed around the globe, our customers can communicate and operate as one, anytime, anywhere, and at lower cost.

What we're doing in the mobile market is similarly about convergence – we aim to offer customers a converged combination of – the best of fixed and the best of mobile. Ultimately, our customers shouldn't have to worry about fixed or mobile when what they really want is freedom and flexibility. This means that we have to find ways of helping them communicate, wherever they are, using whatever device they choose, at the right price.

And convergence is also what our twenty-first century network (21CN) programme is all about. What our customers need to know is that the 21CN can support a range of technologies and services that will enable them to do the things they want to do – faster, more seamlessly and more cost efficiently. And because this new network will support a wide range of innovative services which are currently run on separate networks, it will be much more cost efficient for BT.

Global networked IT services

We have raised our global profile through targeted acquisitions, including Infonet and Radianz, and by increasing our holding in Albacom to 100%.

We continued to play to our strengths in the networked IT services market. A few years ago, our position in this market was aspirational; today, we are competing with the best – and winning. The BT brand is now a powerful presence in the global networked IT services market. It's a brand that stands for excellent networking skills and a genuine commitment to finding innovative ways of delivering what our customers want, end to end, leaving them free to do what they're good at: running their businesses.

Our ICT (information and communications technology) revenues were £3 billion in the year and the major contracts we've won indicate the confidence that our customers are prepared to put in us. We now have a track record of meeting the needs of public and private sector customers in, for example, the financial services and government arenas.

Our networked IT services order intake for the year was over £7 billion.

Broadband

Broadband has been an enormous success story, not just for BT but for the UK as a whole, which now has the highest levels of broadband access of any country in the G7 group of nations. We hit our five million broadband lines target a year early.

As broadband access becomes a fact of life for most people in the UK, our focus is shifting further towards the retail market where we have fantastic scope to drive further growth.

BT's key strategic imperatives

BT's transformation for growth is fuelled by our eight strategic imperatives, five of which are focused on generating new revenues in exciting new markets, defending revenues in traditional markets and operating with maximum efficiency.

Build on our networked IT services capability

Deliver on broadband

Create convergent mobility solutions

Defend our traditional business vigorously

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Having got broadband, people now want to do more and more with it. We are increasing speeds by up to four times at no extra cost to our retail customers.

Convergent mobility services

The launch, in partnership with Vodafone, of our mobile virtual network operator in both the business and consumer markets is the key to building a mobility customer base and a path to mobile convergence. We now have over 372,000 contract connections.

Our strategy is to build a foundation for the delivery of high-value, fixed/mobile convergent solutions, for consumers and businesses. An early example of this will be Project Bluephone which will give customers the convenience of a mobile phone with the quality and cost advantage of fixed-line services.

Twenty-first century network

Our 21CN will help to make the UK one of the most advanced telecommunications countries in the world, transform our wholesale business and support the next generation of flexible, cost-efficient services. At the end of April 2005, we announced the eight preferred suppliers who will help us to implement the 21CN.

The capital expenditure involved is significant but the 21CN will lead to a radical simplification of our networks making it easier to offer compelling propositions to all our customers. The real challenge is to ensure that we invest in a way that meets customers' needs.

Traditional business

We are experiencing major changes in our traditional markets as a result of regulation, growing competition and significant shifts in our customers' buying patterns, as they discover the possibilities of technologies such as instant messaging and voice over IP.

Fixed-voice telephone calls may no longer be the only way to measure the success of a communications company, but they remain fundamental to our business. We may have lost some market share to competitors but we will continue to compete aggressively by offering new and better services, and improved customer value.

Cost efficiency

Taking a leadership position on costs is critical. Earnings per share is a key measure, which means that we have to continue to look at every cost line in the business and challenge it. We've made excellent progress on improving our cost efficiency in the past few years and in the 2005 financial year, our cost efficiency programmes achieved savings of around £400 million, and we aim to deliver at least £300 million to £400 million of savings in each of the next three years.

Relentless customer focus

Our 20 million customers are a wonderful asset and we have to continue to show how much we value every one of them.

A key target for us was driving down customer dissatisfaction - we've reduced dissatisfaction levels by 23% on a compound annual basis over the past three years. There is still more to be done and we must continue this focus.

Our people

People bring strategies to life, people deliver world-class customer experiences, people make convergence happen.

Two years ago, we introduced our new brand values - trustworthy, helpful, inspiring, straightforward, heart. Since then, BT people have embraced these values, and turned the business inside out and upside down to deliver our strategy, finding innovative ways to reinvent BT in our traditional markets at the same time as establishing our BT brand in new markets, all the while driving down customer dissatisfaction.

I am constantly amazed by their commitment and by what they have achieved.

Ben Verwaayen

Chief Executive

18 May 2005



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Growth through transformation

For BT in the twenty-first century, transformation is part of the job description.

While we remain committed to our traditional portfolio of telecommunications services such as voice calls and private circuits, we are equally focused on generating new revenues in exciting and fast-growing new markets, particularly broadband, networked IT services and mobility. This transformation is driven by a single, overriding goal – sustainable, profitable growth.

Achieving this goal is in the best interests of our shareholders, our customers, our people and the wider communities in which we operate.

Broadband

It's easy to forget how fast the world can change. Blink and you might miss it. When, three years ago, we said that we would have five million broadband connections by the summer of 2006, no one thought we had a chance. But now that we've delivered those five million connections more than a year ahead of schedule, no one seems very surprised. After all, it's been clear for some time that we were going to make it.

Broadband is a huge success story for BT, which is transforming itself from a narrowband to a broadband company at the same time as the UK is fast becoming a broadband nation.

In the past few years, we've brought broadband to more than 4,400 exchanges, connected to almost 97% of the UK's homes and businesses. That figure will reach 99.6% this summer, the highest availability in any of the G7 group of countries.

A few years ago, only the experts had any clear idea what broadband was all about. Today, it's one of the first must-have products of the twenty-first century and one of the fastest growing consumer products of all time with a higher early take-up rate than TVs, video recorders or mobile phones.

And the momentum continues to build. It took us about a year to reach our first million broadband connections; the fifth million took just four months.

Since September 2004, we've been connecting a new customer to broadband every ten seconds, 24/7.

Pushing the boundaries

Now that broadband has become a genuinely mass market product, the nature of the broadband debate has changed.

The focus is moving away from availability and towards the ways in which broadband can transform our lives at work and at home.

For many people, broadband initially meant fast, always-on internet access and email – an end to the worldwide wait. But now, they're beginning to realise that so much more is possible – music and video downloads, video emails, education services and so on.

Within a couple of years, every child in the UK will have the chance to learn via

340,000 +

**BT Business
Broadband
customers**

□The focus is now moving away from availability and towards the ways in which higher-speed broadband services can transform our lives at work and home.□
Alison Ritchie
Chief Broadband Officer

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BT used to be essentially a narrowband company; today we are rapidly becoming a broadband company.

broadband and up to 18 million of us will be shopping online.

But as the demand for increasingly sophisticated broadband services grows, so must technology's ability to cope with it. That's why we're continuing to push the boundaries of broadband technology.

We transformed our retail broadband offering by moving most of our broadband customers to a new super-fast standard speed of up to 2Mbit/s at no extra cost, beginning February 2005. Customers now have access to speeds up to four times faster than before.

And we're not stopping there. We've been testing speeds of up to 8Mbit/s and plan to launch high-speed wholesale products later this year. And we've even been trialling something called ADSL2+ which may support speeds of more than 20Mbit/s.

Something for everyone

For customers at home we have a family of broadband packages designed to meet a wide range of needs.

Key packages include **BT Broadband**, which offers rapid, always-on internet access, and **BT Yahoo! Broadband** which gives users access to exciting content as well as a range of other benefits, including multiple email addresses, protection against junk email, parental controls to prevent children accessing unsuitable content and protection against computer viruses.

In July 2004, **BT Communicator with Yahoo! Messenger** became the latest addition to this family, enabling customers to manage all their home communications – phone calls, texts, emails and so on – on their PC.

And we'll also use broadband to make new services, such as video on demand and interactive TV, available to customers.

In the broadband economy

Broadband also has a key role to play in the UK economy, enhancing competitiveness, driving up productivity, promoting growth. Analysts estimate that the UK economy as a whole could be boosted to the tune of £7.5 billion a year by 2007 as a result of productivity gains made possible by broadband.

And what's true of national economies is true of local ones as well, many of which are keenly aware of the possibilities. In February 2005, for example, Northern Ireland became the first UK region outside London to have every one of its exchanges upgraded to broadband by BT. Just a month later – thanks to a partnership between BT and the regional development agency, One Northeast – all 181 exchanges in the region had been upgraded. And in April 2005, we won a contract with the Scottish Executive to bring broadband to the UK's remotest communities, by broadband-enabling 378 exchanges.

BT Business Broadband is the leading service provider for small and medium businesses in the UK, with over 340,000 customers as at 31 March 2005. At the end of the 2005 financial year, we were connecting around 250 business customers to **BT Business Broadband** every day. This is excellent business, particularly since more than half of them also took value-added services from us such as the **Internet Security Pack** and **Internet Business Pack**.

Broadband has the power to change the way businesses operate and the way they communicate with customers and employees. In November 2004, for example, we launched **BT Business Broadband Voice**, which enables smaller businesses to use broadband connections for voice calls and cut the costs associated with supporting multiple business lines.

A broadband connection every 10 seconds, 24 hours a day, 7 days a week

99.6%
broadband
coverage in
the UK by
summer 2005

**5 million +
connections**

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The digital networked economy. Where business is done.

Networked IT services

As communications and information technology networks increasingly converge, corporations and other large organisations are looking for strategic partners who can develop and run their networks for them, leaving them to concentrate on their core business. In recent years, our networking skills have enabled us to establish BT as one of the world's foremost global networked IT services companies.

Where business is done

In the digital networked economy, our networking skills and experience are proving critical and the revenues we are generating in this market show how far we have come in a short time. In the 2005 financial year, our ICT (information and communications technology) revenues were £3.0 billion, compared with £2.5 billion in the 2004 financial year (see graph below).

And if anyone wanted proof that BT really is transforming itself for growth, they would only have to look at some of the recent contracts we've won.

Major contracts

Our most high-profile success of the year came in March 2005 when it was announced that BT will become Reuters's supplier of network services around the world, under a contract expected to be worth up to £1.5 billion over its eight and a half-year life. And just a month earlier, we'd announced a new deal with Barclays to provide enhanced communications infrastructure services for their UK operations. Taking account of existing business, our relationship with Barclays

In 2004/05, we signed networked IT services contracts worth over
£7 billion

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is now worth in excess of £500 million over the life of the contract, and confirms our growing strength and credibility as a supplier to companies in the financial services market.

Other big wins helped to confirm our European capabilities. For example, we signed an outsourcing contract with French company, THALES Group – the international electronics and systems group serving the defence, aeronautics, security and services market – to provide fixed-voice and data network services in 42 countries.

In the Asia Pacific region we were awarded a global network outsourcing contract by South Korea-based CyberLogitec, a subsidiary of Hanjin Shipping, to integrate the systems that it needs to run its operations in the US, Europe and locally. Worth £18 million, this is one of the largest contracts we have ever won in the region.

But it's not just major contracts that make for a healthy order book. We secured over 300 networked IT services contracts each worth between £1 million and £5 million during the 2005 financial year.

Building global presence

Our customers for networked IT services are increasingly operating globally and it's vital that we should be able to meet their requirements around the world – not just in Europe where we own operations in many countries, but elsewhere as well.

There are a number of ways to do this. Strategic partners can help us reach parts of the world where we don't operate and it's certainly possible to deliver a truly global service from any one location to any other, without owning everything in between.

But we also believe that it makes excellent commercial sense to acquire operations outside the UK, where these offer the right kind of strategic fit at the right price.

In February 2005, we completed the acquisition of Infonet, one of the world's leading providers of international managed voice and data network services, for £315 million, net of cash in the business. Infonet brings with it local operations and/or distributors in some 70 countries and remote network access in around 180 countries, significantly extending our global reach.

In the same month, we acquired the 74% that we didn't already own of Albacom, which provides data transmission, voice and internet services to more than 170,000 customers in the Italian business communications market.

And in April 2005, we acquired Radianz – the leading financial services extranet provider – from Reuters for £107 million – another significant step forward in our transformation into a global provider of networked IT services.

Infonet brings local operations
and/or distributors in
70 countries and remote
network access in about **180**
countries around the world

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Growth through transformation

Twenty-first century network

The twenty-first century network (21CN) is at the heart of our transformation strategy, underpinning broadband, networked IT services and convergent mobility services, flexibly and cost effectively. It will lead to a radical simplification of our networks, making it easier for us and the other telecommunications operators who interconnect with our networks to offer compelling converged propositions for all our customers.

The 21CN programme has three broad objectives:

- to enhance the service experience, flexibility and value we provide to all our customers;
- to accelerate the delivery of innovative new products and services to market; and
- to reduce costs radically.

We began technical trials during the 2005 financial year. For example, we conducted a trial in which we moved voice traffic from the traditional public voice network onto an internet protocol (IP) network. It may have gone largely unnoticed, but 7 January 2005 may turn out to be a key date in the history of telecommunications, because that was the day that saw the first end-to-end IP voice call.

In April 2005, we announced the eight preferred suppliers that we expect will help to build and implement the 21CN. The announcement was the culmination of two years of discussions with over 300 potential technology suppliers – one of the largest procurement programmes ever undertaken in the communications industry.

And in order to ensure that all other operators understand what the 21CN means for them and have a chance to input their ideas, we've launched a programme of industry consultation – Consult21.

Mobility

Mobility is about much more than mobile phones and text messages. In a convergent world, individuals and businesses want and need to communicate wherever they happen to be, using whatever devices – mobile and fixed-line phones, PCs, palmtops – they choose. True mobility is about connecting people to people, people to systems, businesses to businesses and machines to machines, any time, any place, any device.



Access to
20,000
Wi-Fi hotspots
globally

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True mobility is about connecting people to people, people to systems, businesses to businesses and machines to machines, any time, any place, any device.

The right stuff

BT has the right brand, channels and network capabilities to really deliver in the fast-growing mobility market.

What we're aiming for is providing all our customers with a winning combination of the quality, reliability, cost advantages and capacity associated with fixed-line communications, AND the convenience, personalisation and independence associated with mobile communications. In other words, the best of both worlds.

During the 2005 financial year, in partnership with Vodafone, we launched **BT Mobile** as a mobile virtual network operator (MVNO) – a move that puts us well on the road to offering the world's first fully converged, fixed/mobile service. This really is a new way of doing a new kind of business.

And it can be a major growth area for us. In the 2005 financial year, revenue growth in the mobility market was 107%.

And we'll shortly be launching Project Bluephone – a converged mobile service, enabling customers to use a single device that can switch seamlessly between fixed and mobile networks.

Mobility for businesses

We launched **BT Mobile** as an MVNO in the business market in November 2004, offering a wide range of flexible mobile services including mobile conferencing facilities.

We're also a leading UK provider of wireless broadband (Wi-Fi).

BT Openzone, our public Wi-Fi service, gives users a high-speed wireless broadband connection at thousands of "hotspots" from which they can access the internet, send and receive emails with attachments and connect to a corporate network. As at 31 March 2005, our customers had access to more than 7,500 hotspots throughout the UK and more than 20,000 around the world.

We are convinced that a partnership strategy is essential for success in this market and we are working hard through the Fixed Mobile Convergence Alliance, which is developing open industry standards, and through the Wireless Broadband Alliance, which is driving the roaming arrangements that will help to make global mobility a reality.

Mobility for consumers

In January 2005, we launched the **BT Mobile** MVNO in the consumer market, with a package aimed at families, offering a range of benefits including up to five additional handsets, free short calls to a designated home number and a single consolidated mobile bill.

More than 372,000 BT Mobile connections

BT was the official communications sponsor for Dame Ellen MacArthur's epic non-stop round

the world victory

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Traditional business

Transformation may be a way of life, but that doesn't mean everything has to change. We will continue to provide all our customers in our traditional markets with an excellent customer experience. Our values – trustworthy, helpful, inspiring, straightforward, heart – continue to define the way we do business around here. Our people continue to live these values. And being a good corporate citizen is as important now as it's ever been.

Keep a relentless focus on improving customer satisfaction

Reducing customer dissatisfaction is a key objective for us. In the 2005 financial year, for the third year in a row, all lines of business reduced customer dissatisfaction levels. In total, we have achieved a group-wide reduction of 23% on a compound annual basis over the past three years.

Transforming the traditional

Of course, transformation and tradition are not mutually exclusive and there's nothing to say we shouldn't find new ways to do the things we've always done.

In July 2004, for example, we abolished the standard rate for telephone calls for all our residential customers and switched them to **BT Together Option 1**, offering them better value for money and making it easier for them to compare our prices with those of our competitors. We also introduced **Call Mobile**, a discount package offering customers savings of up to 40% on all fixed-to-mobile calls.

For business customers, we cut the cost of fixed-to-mobile calls by between 25% and 30% and offered **BT Business Plan** customers the option of a 30 pence cap on all such calls lasting less than an hour. As at 31 March 2005, **BT Business Plan** had over 440,000 locations – up 67% on the 2004 financial year.

Customer protection remains vitally important to us, which is why we've been helping to combat the menace of rogue internet diallers. **BT Modem Protection**, for example, is a free service designed to prevent a customer's computer dialling high-cost, premium rate or international numbers. At the end of March 2005, around one million customers had signed up for one or more of our barring options.

Drive for cost leadership

We remain focused on financial discipline and our cost efficiency programmes achieved savings of around £400 million in the 2005 financial year. This has enabled us to invest in growing our new wave activities. We aim to deliver at least £300 million to £400 million of savings in each of the next three years.

We can't starve ourselves to success, but reducing the costs of failure, complexity and duplication and generally working smarter increases the scope we have to invest for growth. And technology really can contribute to the cause. At the end of the financial year, for example, we had a total of 6.2 million online relationships with customers through our website (bt.com) and almost two million customers receiving e-bills.

Continuing to provide all our customers in our traditional markets with...

We have reduced customer dissatisfaction by 23% on a compound annual basis over the past three years

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Our wider responsibilities

We are privileged to play a role in the wider communities of which we are a part and we recognise that an innovative approach to managing social, ethical and environmental issues is good business in every sense.

Increasingly, we have to demonstrate social and environmental responsibility when bidding for new business – in the 2005 financial year, bids to the value of £2.2 billion required us to demonstrate expertise in managing these issues.

We commit a minimum of 0.5% of our UK pre-tax profits directly to activities in support of society – we provided over £9 million in the 2005 financial year. In addition, BT operations provided a further £12 million in funding and support in kind.

The focus of our community programmes is on the big issues where better communications can make a real difference. That's why we've been sponsoring a drama-based education programme – to date, more than two million children have had the chance to enhance their communications skills – and why we're supporting children's charity ChildLine in its drive to ensure that every child's call for help is answered.

And we're committed to minimising any adverse impact on the environment. During the year, we signed the world's largest green energy contract, which means that almost all our future UK electricity needs will be met from environmentally-friendly sources, including wind generation, solar, wave and hydroelectric schemes.

This is expected to reduce our carbon dioxide (CO₂) emissions by around 325,000 tonnes a year.

We played a role in the response to the Asian tsunami of 26 December 2004. We set up a live call centre to handle the response to the Disasters Emergency Committee's (DEC) appeal and ran the online donation facility.

Individual employees were also involved in fundraising and 16 BT engineers travelled to the affected area to help re-establish the telecommunications infrastructure. We also made an immediate donation of £500,000.

Digital inclusion is a key public policy issue and we are working with the UK Government and the voluntary sector to find effective ways of using communications technology to tackle social exclusion. We are, for example, actively involved in the EverybodyOnline programme – established in partnership with charity campaign group Citizens Online – which aims to increase skills and access to communications technology in deprived communities.

Our Age and Disability Action team promotes equal access to a wide range of products and services, including large-button phones, cordless and hands-free options and a spoken text service.

almost
2 million
customers
now use
e-billing

Highest ranked
telecommunications company
in the Dow Jones Sustainability
Index for the fourth
year in a row

...an excellent customer experience

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The financial results for the 2005 financial year reflect the continuing strong growth in new wave services as we deliver value from transforming the business. Our global networked IT services business is growing strongly and our global capabilities have been strengthened by the successful completion of the acquisitions of Albacom and Infonet. Subsequent to the year end we also completed the acquisition of Radianz.

Profit and loss account

Group turnover from new wave businesses showed strong growth of 32% to £4.5 billion in the year driven by growth in global networked IT services, broadband and mobility. Turnover from our traditional business declined by 7% to £14.0 billion, being impacted by regulatory intervention, competition and technological changes as we migrate customers to new wave services. Regulatory reductions in mobile termination rates are passed on to BT customers resulting in lower charges but are profit neutral. Group turnover of £18.6 billion increased by 2% (excluding the impact of acquisitions and regulatory reductions to mobile termination rates). Group operating profit before goodwill amortisation and exceptional items decreased by 1% to £2.9 billion. This mainly reflects the cost of supporting networked IT services contracts and investment in new wave activities. Net interest payable before exceptional items was £0.8 billion for the year, an improvement of £0.1 billion, reflecting the reduction in net debt. Earnings per share before goodwill amortisation and exceptional items were 18.1 pence, an increase of 7%.

Lines of business

The following table sets out the group turnover and group operating profit (loss) for each of our lines of business.

Years ended 31 March	Group turnover		Group operating profit (loss) ¹	
	2005 £m	2004 £m	2005 £m	2004 ² £m
BT Retail	12,562	12,940	1,120	1,232
BT Wholesale	8,979	8,883	1,940	1,883
BT Global Services	6,381	5,782	7	(105)
Other	25	35	(203)	(121)
Intra-group	(9,324)	(9,121)	□	□
Totals	18,623	18,519	2,864	2,889

¹Before goodwill amortisation and exceptional items

²Restated following the adoption of UITF17 and UITF38 (see note (c) on page 14)

BT Retail

BT Retail is the UK's largest communications service provider, by market share, to the residential and business markets, supplying over 20 million customers with a wide range of communications products and services, including voice, data, internet and multimedia services, and offering a comprehensive range of managed and packaged communications solutions.

On 1 July 2004, we abolished the standard rate for residential customers and switched all existing standard rate customers to BT Together Option 1, offering them better value for money and making it easier for them to compare BT's prices with those of our competitors. We also introduced a number of enhancements to our BT Business Plan, which had over 440,000 locations at the end of the 2005 financial year.

In the 2005 financial year, we launched BT Mobile as an MVNO (mobile virtual network operator) in the business and consumer markets. This is a major step towards building a mobility customer base and developing and delivering one converged customer experience.

BT is the UK's leading service provider of broadband with 1.75 million consumer and business broadband connections. We transformed our retail broadband offering by transferring our broadband customers to a high speed (up to 2Mbit/s) connection, beginning February 2005.

BT Business Broadband remained the leading ISP (internet service provider) for SMEs (typically companies with up to 500 employees) with over 340,000 customers.

BT Wholesale

BT Wholesale provides network services and solutions to over 600 communications companies including fixed and mobile network operators, ISPs and service providers. Interconnecting with over 180 other operators, it also carries transit traffic between telecommunications operators. Its UK network consists of 684 local and 135 trunk processor units, 121 million kilometres of copper wire and over seven million kilometres of optical fibre. BT Wholesale has the most extensive IP backbone network in the UK.

In early April 2005, we provided our five millionth broadband connection, more than one year ahead of target. 4,419 exchanges had been upgraded for broadband at the end of the 2005 financial year, and almost 97% of the UK's homes and businesses were connected to a broadband-enabled exchange.

BT's 21CN programme is at the heart of our transformation strategy, underpinning broadband, networked IT services and convergent mobility services. During the 2005 financial year, we took steps toward the 21CN's three broad objectives: to enhance the service experience, flexibility and value we provide all our customers; to accelerate the delivery of innovative new products and services; and to reduce costs radically.

Technical fibre and voice trials began in the 2005 financial year.

On 28 April 2005, we announced the preferred suppliers that we expect will help build and implement the 21CN.

BT Global Services

BT Global Services is BT's managed services and solutions provider. Its core target market is 10,000 multi-site organisations including major companies with significant global requirements and large organisations in target local markets. BT Global Services provides global reach and a complete range of networked IT services.

Our extensive communications network and strong strategic partnerships enable us to serve customers in the key commercial centres of Europe, North America and the Asia Pacific region.

The acquisition of Infonet – one of the world's leading providers of international managed voice and data network services – was a major step forward in addressing the global networked IT services needs of our core customers, significantly extending our global reach. We also acquired the 74% that we did not already own of Albacom, which provides data transmission, voice and internet services in the Italian business communications market. In April 2005, we also completed the acquisition of Radianz – the leading financial services extranet provider.

Our most high-profile success of the year in the global market was winning the contract to become Reuters' supplier of network services. The contract is expected to be worth up to £1.5 billion over its lifetime.

In April 2005, we won an extension to July 2012 of a contract to deliver essential telecommunications services to the Ministry of Defence and the UK's armed forces. The total value of the contract is more than £2.7 billion.

Research and development and IT support

Our IT division, BT Exact, offers the services of IT professionals with knowledge of leading-edge network design and IT systems and application development. In the 2005 financial year, we invested £257 million in research and development.

Balance sheet

The group balance sheet continued to strengthen during the year and provides confidence to our customers and suppliers. Net debt was reduced by a further £0.6 billion to £7.8 billion and is now £20 billion lower than in 2001. Fixed assets totalled £16.7 billion, of which £15.9 billion were tangible fixed assets,

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principally the UK fixed network. The return on capital employed, before goodwill amortisation and exceptional items on the average capital employed, was 16%.

Cash flow

Cash inflow from operating activities was £5.9 billion. Capital expenditure of £3.1 billion increased by 14%, reflecting the rising investment in our network transformation. Free cash flow of £2.3 billion was generated, an increase of 10%.

Dividend

The Board recommends a final dividend of 6.5 pence per share to shareholders, amounting to £551 million, taking the full year dividend to 10.4 pence per share, an increase of 22% on the previous year. This year's dividend pay out ratio is 57% of earnings before goodwill amortisation and exceptional items compared to 50% last year.

We continue with our progressive dividend policy. The dividend for the 2006 financial year will be at least 60% of underlying earnings: subject to the group's overall financial position, we expect our pay out ratio to rise to around two-thirds of underlying earnings by the 2008 financial year.

Customer satisfaction

Driving up customer satisfaction is at the heart of our strategy. In the 2005 financial year, for the third year in a row, all lines of business reduced dissatisfaction levels. In the past three years, we have achieved a group wide reduction of 23% on a compound annual basis.

Our people

As at 31 March 2005, we employed 102,100 people throughout the world.

Our core people engagement initiative is the *my customer* programme which aims to enable BT people to deliver an excellent customer experience through teamwork. More than 3,000 issues have now been resolved.

For the 2005 financial year, we allocated £11 million to provide free shares to our employees under the BT Employee Share Investment Plan (employees outside the UK receive a cash payment equivalent to the value of the shares). The amount allocated was linked to the achievement of corporate targets determined by the Board.

Corporate social responsibility

Our aim is to manage social, ethical and environmental issues in ways that grow shareholder value and help BT and our customers to be more sustainable. In the 2005 financial year, BT was ranked as the top telecommunications company in the Dow Jones Sustainability Index for the fourth year running. We commit a minimum of 0.5% of our UK pre-tax profits directly to activities which support society. Our contribution in the 2005 financial year was over £9 million. In addition, we made charitable donations of £2 million.

More details of our social and environmental performance are available at www.bt.com/betterworld

Statement of business practice

BT's policy is to achieve best practice in our standards of business integrity in all our operations, in line with our published statement of business practice *The Way We Work*, which is available at www.btplc.com/society/values

Going concern

The company's financial statements for the year ended 31 March 2005 have been prepared on a going concern basis as, after making appropriate enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future.

Adoption of International Financial Reporting Standards (IFRS)

BT continues to report under UK Generally Accepted Accounting Principles (UK GAAP) for the 2005 financial year, but, as required by EU regulations, will present financial information in accordance with IFRS for the 2006 financial year.

Whilst some of the changes required by IFRS will impact BT's reported profits and net assets, this has no impact on the cash flows generated by the business or the cash resources available for investment or distribution to

shareholders. Furthermore, the adoption of IFRS does not affect BT's strategy or underlying business performance.

The main areas of change relate to pensions, share-based payments, intangible assets, leases and financial instruments. We estimate the unaudited pro forma impact of adopting IFRS on the 2005 financial year reported UK GAAP results will be negligible on the underlying profit before tax and underlying earnings per share. However, due to the inherent volatilities introduced by IFRS, no such statement can be made in respect of future years. This estimate excludes the fair value effects on financial instruments which we are not required to apply until 1 April 2005.

Auditors' statement

Auditors' statement to the members of BT Group plc

We have examined the summary financial statement as set out on pages 14 and 15, summary directors' report set out on pages 18 and 19 and the directors' remuneration disclosures set out on page 17.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the summarised annual report in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the BT Group annual review with the annual financial statements, the directors' report and the directors' remuneration report, and its compliance with the relevant requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the summarised annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

This statement, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 251 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion

We conducted our work in accordance with Bulletin 1999/6, "The auditors' statement on the summary financial statement" issued by the Auditing Practices Board for use in the United Kingdom.

Opinion

In our opinion the summary financial statement is consistent with the full annual financial statements, the directors' report and the directors' remuneration report of BT Group plc for the year ended 31 March 2005 and complies with the applicable requirements of Section 251 of the Companies Act 1985, and the regulations made thereunder.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London 18 May 2005

The auditors' report on the full annual accounts for the year ended 31 March 2005 is unqualified and does not contain any statement concerning accounting records or failure to obtain necessary information and explanations.

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Summary financial statement

Summary group profit and loss account for the year ended 31 March 2005

	Before goodwill amortisation and exceptional items 2005 £m	Goodwil amortisation and exceptional items ^(a) 2005 £m	Total 2005 £m	Total(b) 2004(c) £m
Group turnover	18,623	□		