

BT GROUP PLC  
Form 6-K  
June 01, 2005

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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**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)

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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).**

**Enclosure: BT Group plc - Annual Report and Form 20-F 2005**

This Report contains the Annual Report and Form 20-F 2005 of BT Group plc (the "Company") for the fiscal year ended March 31, 2005. The Annual Report and Form 20-F 2005 comprises the Annual Report and accounts of the Company in accordance with United Kingdom requirements and the information required to be set out in the Company's Annual Report on Form 20-F for the fiscal year ended March 31, 2005 (the "Form 20-F") to the Securities and Exchange Commission. The information in the Annual Report and Form 20-F 2005 that is referenced in the "Cross reference to Form 20-F" table on pages 141 to 143 of the Annual Report and Form 20-F 2005 shall be deemed to be filed with the Securities and Exchange Commission for all purposes, including incorporation by reference into the Company's Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 1, 2005.

Table of Contents

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

	<b>Contents</b>
<b><u>2</u></b>	<b><u>Financial headlines</u></b>
<b><u>3</u></b>	<b><u>Chairman's message</u></b>
<b><u>4</u></b>	<b><u>Chief Executive's statement</u></b>
<b><u>6</u></b>	<b><u>Operating and financial review</u></b>
<b><u>6</u></b>	<b><u>Business review</u></b>
<b><u>23</u></b>	<b><u>Five-year financial summary</u></b>
<b><u>25</u></b>	<b><u>Financial review</u></b>
<b><u>44</u></b>	<b><u>Our commitment to society</u></b>
<b><u>46</u></b>	<b><u>Board of directors and Operating Committee</u></b>
<b><u>48</u></b>	<b><u>Report of the directors</u></b>
<b><u>50</u></b>	<b><u>Corporate governance</u></b>
<b><u>56</u></b>	<b><u>Report on directors' remuneration</u></b>
<b><u>69</u></b>	<b><u>Statement of directors' responsibility</u></b>
<b><u>70</u></b>	<b><u>Report of the independent auditors</u></b>
<b><u>71</u></b>	<b><u>Consolidated financial statements</u></b>
<b><u>112</u></b>	<b><u>United States Generally Accepted Accounting Principles</u></b>
<b><u>122</u></b>	<b><u>Subsidiary undertakings, joint ventures and associates</u></b>
<b><u>123</u></b>	<b><u>Quarterly analysis of turnover and profit</u></b>
<b><u>124</u></b>	<b><u>Financial statistics</u></b>
<b><u>125</u></b>	<b><u>Operational statistics</u></b>
<b><u>126</u></b>	<b><u>Risk factors</u></b>
<b><u>127</u></b>	<b><u>Additional information for shareholders</u></b>
<b><u>140</u></b>	<b><u>Glossary of terms and US equivalents</u></b>
<b><u>141</u></b>	<b><u>Cross reference to Form 20-F</u></b>
<b><u>144</u></b>	<b><u>Index</u></b>

BT Group plc is a public limited company registered in England and Wales, with listings on the London and New York stock exchanges.

This is the annual report for the year ended 31 March 2005. It complies with UK regulations and is the annual report on Form 20-F for the Securities and Exchange Commission to meet US regulations.

This annual report has been sent to shareholders who have elected to receive a copy. A separate annual review and summary financial statement for the year ended 31 March 2005 has been issued to all shareholders.

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

References to the "financial year" are to the year ended 31 March of each year, eg the "2005 financial year" refers to the year ended 31 March 2005. Unless otherwise stated, all non-financial statistics are at 31 March 2005.

Please see cautionary statement regarding forward-looking statements on page 128.

BT was incorporated in England and Wales on 30 March 2001 as Newgate Telecommunications Limited with the registered number 4190816. The company changed its name to BT Group plc on 11 September 2001. Following the

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demerger of O2 in November 2001, the continuing activities of BT were transferred to BT Group.  
BT Group's registered office address is 81 Newgate Street, London EC1A 7AJ.

BT Group plc Annual Report and Form 20-F 2005

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Table of Contents**Financial headlines**

- 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
- Dividends of 10.4 pence per share for the year, up 22%

Years ended 31 March

In £ million unless otherwise stated

	<b>2005</b>	2004 <sup>a</sup>	2003 <sup>a</sup>
Group turnover	<b>18,623</b>	18,519	18,727
Exceptional operating costs	<b>(84)</b>	(33)	(48)
Total operating profit	<b>2,764</b>	2,836	2,905
Profit on sale of fixed asset investments	<b>358</b>	38	1,705
Loss on sale of group undertakings	□	(2)	(9)
Profit on sale of property fixed assets	<b>22</b>	14	11
Profit before taxation	<b>2,343</b>	1,945	3,173
Profit after taxation	<b>1,820</b>	1,406	2,714
Basic earnings per share	<b>21.4p</b>	16.4p	31.4p
Dividends per share	<b>10.4p</b>	8.5p	6.5p
Profit before goodwill amortisation, exceptional items and taxation	<b>2,085</b>	2,013	1,840
Basic earnings per share before goodwill amortisation and exceptional items	<b>18.1p</b>	16.9p	14.4p
Net cash inflow from operating activities	<b>5,898</b>	5,389	6,023
Capital expenditure on property, plant and equipment	<b>3,011</b>	2,673	2,445

<sup>a</sup> Restated following the adoption of UITF17 and UITF38 (see note 1 on page 81)

The financial information above is discussed in the Financial review on pages 25 to 43, together with the reasons for focusing on the results from continuing activities before goodwill amortisation and exceptional items.

The Consolidated financial statements are on pages 71 to 122.



Table of Contents

## 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

Table of Contents

## 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.

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.

Table of Contents

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

Table of Contents

## **Operating and financial review**

### **Business review**

The Business review is divided into the following sections:

- 7 Introduction**
- 8 Group structure**
- 9 Group strategy**
- 9 Build on our networked IT services capability**
- 10 Deliver on broadband**
- 11 Create convergent mobility solutions**
- 12 Defend our traditional business vigorously**
- 13 Drive for cost leadership**
- 13 Keep a relentless focus on improving customer satisfaction**
- 13 Transform our network for the twenty-first century**
- 13 Motivate our people and live the BT values**
- 14 Research and development and IT support**
- 15 Property**
- 15 Regulation, competition and prices**
- 22 Relationship with HM Government**
- 22 Legal proceedings**

[Please see cautionary statement regarding forward-looking statements on page 128.](#)

All customer numbers are given as at 31 March 2005, unless stated otherwise.

The definition, reconciliation and reasons for disclosing EBITDA (earnings before interest, taxation, depreciation and amortisation) are discussed in the **Financial review**.

## Table of Contents

### **Introduction**

BT Group plc is the listed holding company for an integrated group of businesses, which together form one of the world's leading providers of communications solutions serving customers in Europe, the Americas and the Asia Pacific region. British Telecommunications plc is a wholly-owned subsidiary of BT Group plc and holds virtually all businesses and assets of the BT group.

Our aim is to increase shareholder value through service excellence, an effective brand, our large-scale networks and our existing customer base, and also through innovation in products, services and solutions. 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**

BT 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.

Our core portfolio covers traditional telephony products such as calls, analogue/digital lines and private circuits. New wave revenue generation is focused on networked IT services, broadband and mobility.

In the UK wholesale market, we provide network services and solutions to over 600 communications companies, including fixed and mobile network operators, ISPs (internet service providers) and other service providers. We interconnect with more than 180 other operators, as well as carrying transit traffic between telecommunications operators.

Our aim in these markets is to continue to increase profitable revenues from data and advanced broadband and internet services, further reducing our dependence on revenues and profit generated by traditional fixed-line voice services.

In the 2005 financial year, 91% of our revenues were derived from operations within the UK.

### **Globally**

We supply managed services and solutions to multi-site organisations worldwide – our core target market is 10,000 multi-site organisations including major companies with significant global requirements, together with large organisations in target local markets. We provide them with global reach and a complete range of networked IT services.

Our extensive global communications network and strong partnerships enable us to serve customers in the key commercial centres of Europe, North America and the Asia Pacific region. We own operations in the Americas, Africa, the Asia Pacific region, Belgium, France, Germany, Ireland, the Netherlands, Spain, Italy, Scandinavia, Switzerland and Central and Eastern Europe. In a small number of countries we use a combination of direct sales and services capabilities and strategic partners to deliver the services our customers want. We currently have employees in 12 countries in Asia Pacific, and operate multiple sales offices in the Americas.

Our global communications services portfolio includes: desktop and network equipment and software; transport and connectivity; managed LAN (local area network), WAN (wide area network) and IPVPN (internet protocol virtual private network) services; managed mobility; applications hosting; storage and security services; and business transformation and change management services.

### **Governance**

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*. This includes a commitment to maintaining the highest standards of corporate governance throughout the group (see **Corporate governance**).

### **Corporate social responsibility**

We are committed to enhancing our positive impact on society through leadership in CSR (corporate social responsibility). In our view, a well managed CSR programme supports the delivery of strategy and is in the best interests of customers, shareholders, employees and the community (see **Our commitment to society**).

### **Ofcom's Strategic Review of Telecommunications**

Shortly after assuming its regulatory functions in December 2003, the Office of Communications (Ofcom) began conducting a Strategic Review of Telecommunications, the aim of which is to consider the scope for the further

development of effective competition in the telecommunications sector.

The Review has found that although the UK telecommunications market has delivered significant benefits for consumers and businesses, the current market situation is not acceptable or desirable going forward.

Consequently, Ofcom's second consultation put forward three options:

withdrawal from regulation in favour of reliance on competition law;

a market investigation reference to the Competition Commission under the Enterprise Act; or

the delivery by BT to other industry participants of "real equality of access".

BT supports the concept of a settlement based on equality of access which would, in our view, be an ideal opportunity to focus regulation on economic bottlenecks and reduce it elsewhere; sweep away the "regulatory mesh" that has grown up since 1984; and deliver regulatory stability and certainty, promoting the confidence that market participants need if they are to invest and innovate. Consequently, in our response to Ofcom's second consultation we put forward a package of proposals under which BT would make significant organisational and other changes to address issues of market confidence and transparency. We stressed that as part of this package, we would need Ofcom to take certain measures, notably to make a commitment to rapid and significant deregulation.

Ofcom is currently involved in discussions with BT and others aimed at assessing whether a settlement based on equality of access would be feasible. If it concludes it is not, it will consider adopting the second of the three options outlined above, ie an Enterprise Act reference.

See **Regulation, competition and prices** for more information on Ofcom's proposals and BT's response.

Table of Contents

**Group structure**

**Background**

British Telecommunications plc, the successor to the statutory corporation British Telecommunications, was incorporated in England and Wales as a public limited company, wholly owned by the UK Government, as a result of the Telecommunications Act 1984. Between November 1984 and July 1993, the UK Government sold all of its shareholding in three public offerings.

In the 2002 financial year, BT undertook a radical restructuring, including the UK's largest-ever rights issue (raising £5.9 billion), the demerger of O2 (comprising BT's wholly-owned mobile assets in Europe), the disposal of significant non-core businesses and assets, the unwind of Concert (BT's joint venture with AT&T) and the creation of customer-focused lines of business.

**Acquisitions and disposals prior to the 2005 financial year**

In the 2003 financial year, we completed the sale of our 26% stake in Cegetel Groupe SA, the leading alternative fixed-line operator in France, for £2.6 billion in cash. In addition, we disposed of a number of non-core investments, including our stakes in BSkyB, Mediaset, Blu and SmarTone.

In the 2004 financial year we sold our stake in Inmarsat, a global mobile satellite communications services company, and monetised our shareholding in LG Telecom, a wireless telecommunications service provider in the Republic of Korea. We also acquired the UK operations of NSB Retail Systems, a supplier of software products and services, and Transcomm, a provider of data-only wireless services in the UK.

**Acquisitions and disposals in the 2005 financial year**

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 £520 million, including acquisition costs. Excluding Infonet's net cash balance, the net value of the deal was £315 million.

The acquisition of Infonet, re-branded BT Infonet, is a significant step forward in our strategy of addressing the networked IT services needs of multi-site organisations. It will significantly extend our global reach and will deepen our presence in North America and the Asia Pacific region. BT Infonet has local operations and/or distributors in 70 countries, remote network access in approximately 180 countries and strong sales and support partnerships around the world.

Also in February 2005, we acquired the 74% of Albacom that we did not already own from our three joint venture partners – ENI, BNL and Mediaset – for a minimum of £80 million. Including acquisition costs, and settlement of BT's share of Albacom's bank loan, the total acquisition cost was £131 million. BT has been active in the Italian business communications market since 1995 and Albacom provides data transmission, voice and internet services to more than 170,000 customers in that market. We also signed outsourcing contracts with our former joint venture partners.

In October 2004, there was an IPO (initial public offering) of the Singapore telecommunications and media company, StarHub, in which BT held an 11.9% stake. By November 2004, we had disposed of our entire holding, through the IPO, for £78 million in cash.

Also in October 2004, we acquired BIC Systems Group Limited for a cash consideration of £17 million, consolidating our position in the networked IT services sector in Northern Ireland.

In December 2004, we completed the sale of our 15.8% stake in Eutelsat to GS Capital Partners – an investment partnership affiliated with Goldman Sachs – for £357 million in cash. In January 2005, we completed the sale of our 4% stake in Intelsat to a consortium of private equity investors for £65 million in cash. This followed the sale in June 2004 of our 4.8% stake in New Skies Satellites for £24 million in cash.

In July 2004, we disposed of our 27.7% stake in PayPoint Limited, a bill payment collection network operator, to various institutional investors for £34 million in cash.

**Post balance sheet acquisitions**

In April 2005, we completed the acquisition of Radianz, the leading financial services extranet provider, from Reuters for a cash consideration of £107 million. The purchase of Radianz is another vital step in our transformation into a global provider of networked IT services. Radianz will continue to provide high-quality extranet services for Reuters and the global financial services market.

**How BT operates**

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BT consists principally of three lines of business: BT Retail, BT Wholesale and BT Global Services.

BT Retail and BT Wholesale operate almost entirely within the UK, addressing the consumer, business and wholesale markets, and offer a broad spectrum of communications products and services.

BT Global Services addresses the networked IT services needs of multi-site organisations including major companies with significant global requirements and large organisations in target local markets.

Further analysis of group turnover is provided in the **Financial review**.

### **Consumer customers**

As at 31 March 2005, BT had approximately 19 million UK consumer customers with around 20 million residential customer lines (exchange line connections). In the 2005 financial year, consumer revenues declined by 6% to £5,637 million, primarily reflecting the impact of CPS (carrier pre-selection) and regulatory price reductions to mobile termination rates.

## Table of Contents

Our strategy in the consumer market is to defend traditional revenues and market share vigorously through innovative service offerings backed by innovative marketing and excellent quality of service. At the same time, we are driving for new wave revenues, particularly in the areas of broadband and mobility.

In the consumer market, new wave revenues grew by 85% from £223 million in the 2004 financial year to £412 million in the 2005 financial year, driven principally by broadband and mobility. Residential broadband customers increased by 96% in the year to more than 1.3 million and mobility connections increased to 187,000 as at 31 March 2005.

### **Major corporate and business customers**

As at 31 March 2005, we had around 1.5 million business customers worldwide, with nine million exchange lines in the UK.

In the 2005 financial year, major corporate revenues increased by 4% to £6,101 million. The increase in new wave turnover of 19% to £2,926 million was driven by networked IT services, broadband and by mobility, not only in the UK but also globally.

Our strategy in the major corporate market is to continue to migrate from traditional voice-only services to networked IT services. This enables us to build closer, more integrated, long-term, high-value relationships with our customers, enabling them to manage their communications spend more effectively and gain competitive advantage in their markets. Such relationships will, we believe, deliver long-term, sustainable, predictable and profitable revenues, more than offsetting the decline in our traditional business revenues. As at 31 March 2005, new wave turnover accounted for 48% of our total turnover in the major corporate market.

In the SME market (typically companies with up to 500 employees), our strategy is to provide business customers with tailored communications products and services that enable them to manage their businesses more simply and efficiently. Overall, in the SME market during the 2005 financial year, revenues reduced by 5% to £2,464 million primarily reflecting the impact of CPS and WLR (wholesale line rental).

### **Wholesale customers**

Our strategy in the UK wholesale market is to continue to generate profitable revenues from our core market and from new wave products in broadband, networked IT services and mobility.

In the 2005 financial year, turnover from our wholesale activities increased by 9% to £4,396 million.

In the UK, external turnover from BT's wholesale activities was £3,812 million in the 2005 financial year, compared with £3,473 million in the 2004 financial year.

New wave revenues were £664 million, up 84% on the 2004 financial year. This increase was driven by the success of broadband as well as a strong emphasis on customers as we aim to build innovative solutions that help our wholesale customers grow their businesses.

In our global carrier business, revenues were £584 million in the 2005 financial year, compared with £557 million in the 2004 financial year. Our global carrier business customers include other fixed-line telecommunications operators, mobile operators and selected ISPs.

### **Report structure**

For the purposes of this **Business review**, we are reporting on each of our strategic imperatives.

For financial reporting purposes, we continue to report by line of business (see **Financial review**).

### **Group strategy**

Our strategy is to build long-term partnerships with our customers. With their support, we aim to maximise the potential of our traditional business through a combination of enhanced quality of service, creative marketing, innovative pricing and cost efficiency while pursuing profitable growth by migrating our customers to new wave products and services such as networked IT services, broadband, mobility and managed services.

We are also exploring new ways of doing business and have, for example, set up a number of ventures to deliver new revenue streams by taking an innovative and entrepreneurial approach to our core business.

We have eight strategic imperatives, five of which are focused on generating new wave revenues, defending revenue 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  
drive for cost leadership.

These are underpinned by three further imperatives:  
keep a relentless focus on improving customer satisfaction  
transform our network for the twenty-first century  
motivate our people and live the BT values.

#### **Build on our networked IT services capability**

Our strategy in the networked IT services market is to reinforce BT's position as a global player capable of competing with the world's best in selected growth markets. Our portfolio of services covers a number of key areas including IP infrastructure, CRM (customer relationship management), security, applications, managed mobility, hosting, and outsourcing.

#### **Networked IT services for major corporate customers**

As business applications are increasingly being networked, networks are seen as increasingly vital to productivity and competitive advantage.

ICT revenues for the 2005 financial year were £2,753 million, a rise of 18% on the 2004 financial year. We aim to deliver networked IT services globally to large business customers and other organisations (including the public and government sectors), giving them the communications tools they need for productivity and/or business improvement.

In the 2005 financial year, we secured networked IT services orders worth more than £7 billion. Major contracts included:

Our highest profile success in the global market came in March 2005 when it was announced that BT will be Reuters's supplier of network services under a contract expected to be worth up to £1.5 billion over eight and a half years. BT will provide and manage secure data networks for Reuters's products and services worldwide. We also signed a new voice and data communications deal with Barclays plc to provide enhanced communications infrastructure services for Barclays's

## Table of Contents

UK operations. The value of these services, including existing business, is expected to be in excess of £500 million over the seven-year term.

A number of contract wins during the 2005 financial year helped to confirm BT's European credentials and capability. For example, we signed an outsourcing contract with French company THALES Group, an international electronics and systems group serving the defence, aeronautics, security and services markets. The five-year contract covers the management of fixed-voice and data network services for THALES and its subsidiaries in up to 42 countries.

We signed a multi-year managed services agreement with Bristol-Myers Squibb to manage its LAN and WAN infrastructure globally. As part of the agreement, BT will migrate these services to a state-of-the-art, high-speed, IP-based global MPLS (multi-protocol label switching) infrastructure.

We were awarded a global network outsourcing contract with South Korea-based CyberLogitec, the IT subsidiary of Hanjin Shipping. With a sales order value of £18 million, this is one of the largest contracts won by BT in the Asia Pacific region.

National Air Traffic Service awarded us a £32 million contract to provide a system to carry all communications between its radar, communication and air traffic control centre sites and its IT network.

In addition to the range of large deals, we secured more than 300 networked IT services contracts each worth between £1 million and £5 million during the 2005 financial year.

In April 2005, we won an extension to 2012 of a contract to deliver essential telecommunications services to the Ministry of Defence (MoD) and the UK's armed forces. Between April 2005 and July 2012, the Defence Fixed Telecommunications Systems public/private partnership contract between the MoD and BT will be worth up to £1.5 billion, bringing the total value of the contract to more than £2.7 billion.

We underlined our position as a global networked IT services company with the launch of a major business-to-business advertising and marketing campaign in September 2004. The campaign ran in multiple languages in international and local media across Europe, the Americas and the Asia Pacific region.

### **Networked IT services for wholesale customers**

We believe that the convergence of IT and communications technologies creates commercial opportunities for communications providers, and our strategy is to enable these providers to take full advantage of such opportunities.

We have a long and successful tradition of delivering network-based connectivity to the carrier and intermediate telecommunications markets throughout the UK, and have developed value-enhancing services and solutions. We have a number of agreements with service providers and mobile operators to upgrade their IP capability. In addition, we have used our expertise and geographic reach to provide ubiquitous, bespoke data housing solutions.

Our plans for our twenty-first century network (21CN) will enable the delivery of further integrated network and communications solutions to our customers and their end-user customers.

### **Deliver on broadband**

In the 2005 financial year, we continued our drive to enhance the awareness, availability and attractiveness of broadband and we are on target to bring broadband to exchanges serving 99.6% of UK homes and businesses by the summer of 2005. The UK now has the most extensive broadband network of all the countries in the G7 Group, according to telecommunications analyst Ovum.

We believe that the key issues in today's broadband markets are speed and price, but that, going forward, applications will increasingly prove to be a competitive differentiator.

### **Broadband for wholesale customers**

In early April 2005, we reached our target of five million broadband lines, one year ahead of schedule. Since we first announced the target, take-up has continued to accelerate – whereas it took a year to reach our first million, the fifth million took just four months. Since September 2004, we have been connecting someone to broadband every ten seconds of every day. In total, 4,419 exchanges had been upgraded by the end of the 2005 financial year, reaching almost 97% of the UK's homes and businesses. Broadband is now one of the fastest growing consumer products of all time.

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In February 2005, Northern Ireland became the first UK region outside London to have all its exchanges enabled for broadband. As at 1 March 2005 □ as a result of a £10 million partnership between BT and One Northeast, the regional development agency for northeast England □ all 181 exchanges in the region had been upgraded. In April 2005, we won the £16.5 million public tender with the Scottish Executive to bring broadband to the most remote communities in the UK. We will enable 378 exchanges to deliver broadband to 51,000 households and 5,400 businesses.

During the 2005 financial year, we removed the distance-related limits on our most popular broadband services, bringing around one million more UK homes and businesses within reach of broadband.

As the broadband market has matured, new applications, including video and music downloads and videoconferencing, have driven a demand for increasing speed. Since April 2005, we have been testing speeds of between 2Mbit/s and 8Mbit/s with a

## Table of Contents

view to launching higher-speed wholesale services in the second half of 2005. In addition, we are trialling a variant of ADSL (asynchronous digital subscriber line) broadband, known as ADSL2+, which may support speeds of more than 20Mbit/s.

With effect from April 2005, we reduced the wholesale cost to service providers of our BT IPStream and BT DataStream ADSL products by an average of 8% in areas of high demand.

We also announced details of the next 500 exchanges to be upgraded to provide SDSL (synchronous digital subscriber line) services. SDSL offers the same rate upstream and downstream and is particularly suitable for the SME market. By April 2006, we aim to SDSL-enable 1,300 exchanges, covering more than two thirds of UK businesses.

During the 2005 financial year, we redesigned and reduced the price for our LLU (local loop unbundling) product (see **Regulation, competition and prices** □ **Local Loop Unbundling**) by up to 70% in a phased series of price cuts which will, we believe, make it easier for LLU operators to invest in broadband infrastructure with confidence. As at 31 March 2005, LLU operators were providing service to 40,000 lines from more than 600 exchanges, many of which were multi-operator sites.

### **Broadband for consumers**

As at 31 March 2005, in the highly competitive retail market, our share of consumer and business DSL broadband connections in the UK was 36% (1.75 million connections).

BT is the UK's leading service provider of broadband, offering a family of broadband packages designed to meet the diverse needs of our customers. Key packages include BT Broadband Basic and BT Broadband which offer rapid, always-on internet access; BT Yahoo! Broadband which also provides a fuller range of benefits, including multiple email addresses, virus protection, personalised music, parental controls, protection against unsolicited email and evolving applications and content; and BT Communicator with Yahoo! Messenger.

We transformed our retail broadband offering, by announcing the transfer of our customers to a new super-fast standard, beginning in February 2005. Most consumer and business customers will have their broadband speed increased to up to 2Mbit/s □ up to four times faster than previous speeds □ at no extra cost. The introduction of 2Mbit/s as standard will enable customers to get more from their broadband link and paves the way for a range of new services.

BT will also use broadband to make new services, such as video on demand and interactive TV, available to customers.

In July 2004, we launched BT Communicator with Yahoo! Messenger. This integrated software package, downloadable from the internet, gives customers a truly convergent, multi-media communications experience, enabling them to manage all their home communications □ phone calls, emails, texts, instant messaging and webcam □ together in one place on their PC.

### **Broadband for business customers**

We believe that the introduction of 2Mbit/s ADSL broadband as standard will help business customers maximise the major opportunities offered by online trading and teleworking.

BT Business Broadband remained the leading ISP for SMEs in the UK. At the end of the 2005 financial year, we had over 340,000 BT Business Broadband customers and were adding 250 a day. More than half opt for such value-added services as the Internet Security Pack and the Internet Business Pack.

In January 2005, we created an online payments business by bringing together BT Click&Buy and our online card payment service, BT Buynet, which currently process almost 17 million transactions a year between them. The new business will offer an extensive range of payment solutions to the rapidly growing online retail market. BT Business Broadband Voice, launched in November 2004, gives small businesses throughout the UK access to VOIP (voice over IP) services and enables them to use their broadband connections to reduce costs for multiple business lines. On average, BT Broadband Voice offers customers savings of more than 60% compared with second line rental.

### **Create convergent mobility solutions**

In a convergent world, individuals and businesses increasingly need to connect and communicate whenever and wherever they happen to be, using whatever devices they choose.

Our aim is to offer all our customers the right combination of the quality, reliability, cost advantages and bandwidth associated with fixed-line communications, and the convenience, personalisation and mobility associated with mobile communications.

In the 2005 financial year, we launched BT Mobile as an MVNO (mobile virtual network operator) running over the Vodafone network. Becoming an MVNO is fundamental to building our mobility customer base, driving the

wireless broadband market and developing and delivering compelling convergence propositions and one converged customer experience.

Project Bluephone is a converged mobile service, enabling customers to use a single device that can switch seamlessly between fixed and mobile networks. This will provide customers with the convenience of mobile combined with the cost and quality advantages of a fixed-line phone. We plan to launch Project Bluephone shortly.

We believe that a partnership strategy is fundamental to our success and we are working hard through the FMCA (Fixed Mobile Convergence Alliance) to develop open industry standards and through the WBA (Wireless Broadband Alliance) to drive Wi-Fi (public wireless broadband) hotspot proliferation, global roaming and user satisfaction.

Revenue in the mobility market in the 2005 financial year was £205 million, an increase of 107% on the 2004 financial year.

As at 31 March 2005, BT Mobile had over 372,000 business and consumer connections.

### **Mobility for consumers**

In the consumer mobility market our strategy is to build a foundation for the delivery of added-value, fixed/mobile convergent solutions.

In January 2005, we launched BT Mobile as an MVNO with Vodafone in the consumer market. BT Mobile is cost-effective for families, offering up to five additional

Table of Contents

handsets. Other benefits include free short calls from a BT Mobile phone to a designated home number and a single consolidated mobile bill.

**Mobility for business customers**

BT is a service provider in the business mobility market with more than 185,000 business connections at 31 March 2005. We provide a range of managed mobile services to UK and global customers who either outsource their mobile communications entirely or rely on BT to provide specific managed services.

In November 2004, we launched our BT Mobile MVNO business in the SME and corporate market, offering a range of mobile services including a mobile VPN service (BT Business Circle) and mobile conferencing.

We are a leading UK provider of Wi-Fi services. BT Openzone offers customers a high-speed, wireless broadband connection over which they can access the internet, se