

BT GROUP PLC
Form 6-K
May 31, 2006

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 May 31, 2006

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

Enclosure: Annual Review and Notice of Meeting 2006

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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/ Alan Scott

Name: Alan Scott

Title: Assistant Secretary

Date: May 31, 2006

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Annual Review & Notice of Meeting 2006

SUMMARY FINANCIAL STATEMENT AND
NOTICE OF ANNUAL GENERAL MEETING 2006

This document is important and requires your immediate attention. If you have any doubts about what action you need to take, you should contact your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised pursuant to the Financial Services and Markets Act 2000 immediately.

If you have sold or transferred all of your shares you should pass this booklet and the accompanying documents to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

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CHAIRMAN'S MESSAGE

BT is one of the world's leading providers of communications solutions and services operating in 170 countries. Our principal activities include networked IT services, local, national and international telecommunications services, and higher-value broadband and internet products and services.

FINANCIAL HEADLINES

- Revenue of £19,514 million, up 6%
- New wave revenue of £6,282 million, up 38%
- Profit before taxation and specific items of £2,177 million, up 5%
- Earnings per share before specific items of 19.5 pence, up 8%
- Net debt reduced from £7.9 billion to £7.5 billion
- Full-year dividend of 11.9 pence, up 14%
- Broadband end users of 7.9 million, up 58%

Dear Shareholder,

Welcome to our new format Annual Review which, this year, includes the Notice of Meeting. I very much hope you will be able to join us at the AGM at London's Barbican Centre on 12 July 2006. If you do not plan to attend I hope you will send us a completed proxy form so you are able to vote at the Meeting. You will also find enclosed a copy of our shareholder magazine Forward which contains an update on the many exciting things happening in BT's fast changing world.

RESULTS

Our results for the 2006 financial year were excellent. Earnings per share before specific items grew by 8% to 19.5 pence. We continued to invest significantly in technologies and systems designed to transform our customers' experience, at the same time as generating free cash flow of £1.6 billion.

The news on dividends is again positive. Your Board is recommending a full-year dividend of 11.9 pence per share – a pay out ratio of 61% of earnings before specific items, compared with 57% last year. We continue our progressive dividend policy and expect our pay out ratio to rise to around two-thirds of earnings in the 2008 financial year.

We operated our share buy back programme again in the 2006 financial year. This is being funded from cash generated over and above that required for servicing our debt, which remains below £8 billion.

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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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BUSINESS PROGRESS

We continued to implement our strategy of growth through business transformation. Your Board has given its backing to targeted acquisitions that will help us confirm our status as a leading player in the global networked IT services market. In the 2006 financial year, we acquired Atlanet in Italy (as part of a major deal with Fiat), Cara Group in Ireland and Total Network Solutions in the UK. And in the UK, we now have almost eight million broadband lines over which we are able to offer customers exciting, next-generation voice and entertainment services. New wave revenue grew by 38% to £6.3 billion, and accounted for around one-third of our total business.

REGULATION

We believe that a fair and flexible regulatory regime is vital for our industry, for ensuring that we can meet customers' growing needs and for encouraging investment. We were pleased that, following its strategic review of telecommunications, Ofcom accepted the set of legally-binding Undertakings that BT proposed in order to transform the regulatory landscape in the UK. We believe that the impact of these Undertakings will be to focus regulation where it remains necessary at the same time as stimulating de-regulation wherever possible.

PENSIONS

BT stands fully behind its pension promise to pensioners and members of the BT Pension Scheme (BTPS). The scheme is well-managed and its assets have grown very significantly in recent years, from £23 billion at the end of 2002 to more than £35 billion currently. The accounting deficit has almost halved in the last year alone. With the Trustees of the BTPS, we are continuing discussions on the triennial funding valuation of the scheme. In particular, we aim to review recent pensions legislation and guidelines, and examine the implications and extent of the Crown Guarantee given on privatisation in 1984. The Crown Guarantee, which applies to liabilities assumed by BT in 1984 and only in the event of insolvency, is an extra layer of security for BT pensioners.

THE BOARD

There were a number of changes to your Board during the year. I would like to welcome Matti Alahuhta and Phil Hodgkinson as non-executive directors. Matti has been President of Kone Corporation since January 2005 and was previously at Nokia; Phil is Group Finance Director of HBOS. Both bring a wide range of commercial and senior management experience to your company. I would also like to thank Lou Hughes who stepped down as a non-executive director on 31 March 2006 for his excellent contribution over more than six years. I'm pleased that his experience is not lost to us: he has joined our Americas Advisory Board.

OUR WIDER RESPONSIBILITIES

Our aim as a communications company is to operate in a socially responsible and sustainable way and to ensure that we help everyone benefit from improved communications and enhanced connectivity. I'm very proud of the fact that, for the fifth year in a row, BT was the highest placed telecommunications company in the Dow Jones Sustainability Index.

Climate change has been moving inexorably up the social and corporate agendas for a number of years now. Although telecommunications technology is environmentally friendly, BT is one of the largest companies in the UK and one of the largest consumers of electricity. Our operations inevitably have an impact on the environment and we take the job of managing that impact seriously. We are now, for example, meeting almost all our UK electricity needs from environmentally friendly sources, including wind generation, solar, wave and hydroelectric schemes.

LOOKING FORWARD

I am very grateful to our shareholders and our customers for their continued loyalty and the confidence that they have shown in BT's programme of transformation. I'd like to thank our employees for making that programme happen.

Your company is well set for continued success in the years ahead. Our performance underpins our confidence that we can continue to grow revenue, EBITDA¹, earnings per share and dividends over the coming year, and accelerate the strategic transformation of the business.

NOTICE OF MEETING

To give as many shareholders as possible the opportunity to attend the AGM, we hold the meeting in a different city in the UK each year. We also broadcast my speech and the presentation by our Chief Executive, Ben Verwaayen, live over the internet (see page 14).

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The directors proposed for re-election this year are Sir Anthony Greener, Maarten van den Bergh and Clay Brendish who are independent non-executive directors. I am pleased to confirm to shareholders that, following formal performance evaluation, we continue to regard Sir Anthony, Maarten and Clay as effective non-executive directors. They make a valuable contribution to the Board and have demonstrated a high level of commitment to the role. Matti Alahuhta and Phil Hodgkinson, who joined the Board during the year, are also retiring automatically and are proposed for election. The Board recommend Matti and Phil for election.

Even if you are not able to come to the meeting in person, your vote is still important. I would urge you, regardless of the number of shares you own, to vote.

You may vote by completing and returning the enclosed Proxy Card. Alternatively, you may cast your vote online or by telephone or fax.

If you intend coming to this year's meeting, please either return the enclosed AGM Intention to Attend card or indicate your intention to attend over the internet or by phone.

I look forward to seeing you at the Barbican.

Sir Christopher Bland

Chairman

17 May 2006

1EBITDA □ Earnings Before Interest, Tax, Depreciation and Amortisation represents group operating profit (loss) before depreciation and amortisation.

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REVIEW OF THE YEAR

INTRODUCTION

Our vision is for BT to be dedicated to helping customers thrive in a changing world. Our mission is to be the leader in delivering converged networked services.

We are committed to increasing shareholder value by transforming the customer experience through service excellence, by the effective management of our powerful brand, and by leveraging our large scale networks and our existing customer base. We aim to find new and mutually-rewarding ways of engaging with around 20 million customers, to capitalise on the possibilities of convergence, to offer global reach combined with the service values associated with local delivery, and to continue to provide innovative services and solutions.

We are committed to enhancing our positive impact on society through leadership in CSR (corporate social responsibility), and our 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](#).

OUR CUSTOMERS

GROUP RESULTS

The financial results reflect the continuing strong growth in new wave services as we drive value from transforming the business. We have continued to make progress in growing earnings per share before specific items which at 19.5 pence were 8% higher than last year. Revenue for the full year has grown by 6% to £19,514 million. New wave revenue grew by 38% to £6,282 million and now represents around one-third of the group's business.

Profit before tax and specific items was £2,177 million, up 5% from the prior year. Capital expenditure of £3.1 billion increased by 4% reflecting the cost of investing in our network transformation.

BALANCE SHEET

The group's balance sheet continued to strengthen and provides confidence to our customers and suppliers. Net debt was reduced by a further £0.4 billion to £7.5 billion during the year. Total assets were £24.7 billion of which £15.5 billion were property, plant and equipment. The return on capital employed, before specific items, was 16.8%.

CASH FLOW

Net cash inflow from operating activities was £5.4 billion. Free cash flow of £1.6 billion was generated in the year.

DIVIDENDS

The Board recommends a final dividend of 7.6 pence per share, amounting to £632 million. This will be paid, subject to shareholder approval, on 11 September 2006 to shareholders on the register on 18 August 2006. This takes the proposed dividend for the full year to 11.9 pence per share, compared to 10.4 pence in the 2005 financial year, an increase of 14%.

OUR PEOPLE

Our commitment to meeting our customers' needs presents the 104,400 people employed by BT at 31 March 2006 with opportunities to develop innovative solutions, generate new business, drive efficiencies and experience personal growth.

CORPORATE SOCIAL RESPONSIBILITY

Managing social, ethical and environmental issues in a way that grows shareholder value and helps BT and our customers be more sustainable is very important to us.

The Dow Jones Sustainability Indexes rank companies for their success in managing social, ethical and environmental factors for competitive advantage. During the 2006 financial year, BT was ranked as the top telecommunications company in the Dow Jones Sustainability Index for the fifth year in a row.

We also hold the Queen's Award for Enterprise in recognition of our contribution to sustainable development.

The Board reviews our CSR strategy, performance and risks annually and is kept informed of new developments that might impact on its duties. We have 12 CSR key performance indicators which cover our relationships with our stakeholders, as well as our environmental performance and our contribution to digital inclusion and business integrity. See our online social and environmental report at www.bt.com/betterworld for more details.

Source: Bloomberg

HOW BT OPERATES

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

Openreach was established on 21 January 2006 in response to Ofcom's strategic review of telecommunications. It operates the physical (as opposed to the electronic) assets of the local access and backhaul networks and provides the services which use these networks to communications providers, both internally and

externally, in an equivalent and transparent way.

For financial reporting purposes, Openreach remained part of BT Wholesale until the end of the 2006 financial year. It will be reported as a separate line of business in the 2007 financial year.

Openreach, BT Retail and BT Wholesale operate almost entirely within the UK, where BT is the UK's largest communications service provider, by market share. BT supplies the residential and business markets 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.

BT Global Services addresses the networked IT services needs of multi-site organisations both in the UK and internationally.

[Back to Contents](#)**LINES OF BUSINESS**

The following table sets out the revenue and operating profit (loss), before specific items, for each of our lines of business.

Years ended 31 March	Revenue		Operating profit (loss)	
	2006 £m	2005 £m	2006 £m	2005 £m
BT Retail	8,452	8,698	644	607
BT Wholesale	9,232	9,095	1,992	1,950
BT Global Services	8,632	7,488	363	411
Other	18	25	(366)	(275)
Intra-group	(6,820)	(6,877)	□	□
Totals	19,514	18,429	2,633	2,693

BT Retail

	2006 £m	2005 £m
Revenue	8,452	8,698
Gross margin	2,354	2,354
Sales, general and administration costs	1,563	1,600
EBITDA	791	754
Operating profit	644	607
Capital expenditure	153	170

BT Retail is the UK's largest communications service provider, by market share, to the residential and business markets. It trades under one of the UK's leading brands – BT – and is the prime channel to market in the UK for other businesses in the BT Group. It supplies a wide range of communication products and services, including voice, data, internet and multimedia services, and offers a comprehensive range of managed and packaged communications solutions. The portfolio includes traditional telephony products such as calls, analogue/digital lines and private circuits. New wave revenue generation is focused on broadband, mobility and networked IT services. Its strategy is to improve the customer experience, control costs and increase cash flow, defend traditional revenues and build new revenue streams.

The results demonstrated a continued strategic shift towards new wave products with growth in broadband, networked IT services and mobility revenues. Despite the substitution by new wave products, traditional revenue was defended by changes in pricing structure and packages to benefit frequent users and marketing campaigns focusing on key customer service promises.

Revenue decreased by 3% in the 2006 financial year to £8,452 million. The growth in new wave revenue of 38% in the 2006 financial year continued to reduce our dependence on traditional revenue.

BT Wholesale

	2006 £m	2005 £m
Revenue	9,232	9,095
Gross variable profit	7,031	6,933
EBITDA	3,894	3,864
Operating profit	1,992	1,950
Capital expenditure	2,013	1,981

BT Wholesale

BT Wholesale provides network services and solutions within the UK. Its customers include communications companies, fixed and mobile network operators, internet and other service providers. The customer base also includes BT Retail and BT Global Services. The majority of BT Wholesale's revenue is internal (2006 □ 54%, 2005 □ 58%) and mainly represents trading with BT Retail. External revenue is derived from providing wholesale products and solutions to other operators interconnecting with BT's UK fixed network.

In the 2006 financial year, revenue totalled £9,232 million, an increase of 2% over the 2005 financial year, reflecting the strong growth in new wave revenues, mainly broadband.

BT Global Services

	2006 £m	2005 £m
Revenue	8,632	7,488
EBITDA	1,001	961
Operating profit	363	411
Capital expenditure	702	605

BT Global Services supplies managed services and solutions to multi-site organisations worldwide □ its core target market is 10,000 multi-site organisations including major companies with significant global requirements, together with large organisations in target local markets. It provides them with networked IT services and a complete range of managed solutions.

In the 2006 financial year BT Global Services' revenue was 15% higher at £8,632 million, including £795 million from the Albacom and Infonet businesses acquired in the final quarter of the 2005 financial year. This represents an underlying increase of 5% compared to the 2005 financial year. Revenues outside the UK have grown strongly as BT Global Services builds on its global capabilities.

GOING CONCERN

The company's financial statements for the year ended 31 March 2006 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.

KEY DATES FOR 2006/2007

Annual General Meeting	12 July 2006
First Quarter Results	27 July 2006
Second Quarter and Half Year Results	9 November 2006
Third Quarter and Nine Months Results	February 2007
Fourth Quarter and Full Year Results	May 2007
2007 Annual Report and Accounts published	June 2007

CONSUMER SERVICES

Further information on consumer services is available as follows:

- BT Broadband □ call 0800 **800 060** or visit www.bt.com/shareholders/broadband
- BT Together □ call 0800 **800 150** or visit www.bt.com/together
- BT Fusion □ call 0800 **783 2368** or visit www.bt.com/btfusion/shareholder
- BT Mobile □ call 0800 **107 8034** or visit www.bt.com/btmobile
- BT Communicator with Yahoo! Messenger □ call 0800 **800 150** or visit www.bt.com/btcommunicator
- Internet Security Pack □ call 0800 **800 150** or visit www.bt.com/premiumrates
- Shareholder offers □ call 0800 **652 7180** or visit www.btshareholders.co.uk

Information on the services we offer is regularly enclosed with BT phone bills.

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SUMMARY FINANCIAL STATEMENT

SUMMARY GROUP INCOME STATEMENT

for the year ended 31 March

	Before specific items 2006 £m	Specific items ^a 2006 £m	Total 2006 £m	Total 2005 £m
Revenue	19,514	□	19,514	18,429
Operating profit	2,633	(138)	2,495	2,992
Net finance expense	(472)	□	(472)	(599)
Share of post tax profit (loss) of associates and joint ventures	16	□	16	(39)
Profit on disposal of joint venture	□	1	1	□
Profit before taxation	2,177	(137)	2,040	2,354
Taxation	(533)	41	(492)	(525)
Profit for the year	1,644	(96)	1,548	1,829
Earnings per share			18.4p	21.5p
Earnings per share before specific items			19.5p	18.1p
Proposed dividends per share			11.9p	10.4p

^aSpecific items comprise items considered to be material and one-off, or unusual in nature such as disposals of businesses and investments. Separate identification of these items is consistent with the way that financial performance is measured by management and assists in providing a meaningful analysis of the trading results of the group. The principal specific items for the 2006 financial year were property rationalisation costs of £68 million, and a provision of £70 million for the costs of establishing Openreach as a separate line of business. Specific items in the 2005 financial year amounted to a net profit of £290 million after taxation, mainly on the disposal of investments.

SUMMARY GROUP CASH FLOW STATEMENT

for the year ended 31 March

	2006 £m	2005 £m
Net cash inflow from operating activities	5,387	5,574
Net cash received (used) in investing activities	365	(1,740)
Net cash used in investing activities	(5,278)	(3,529)
Net increase in cash and cash equivalents	474	305
Cash and cash equivalents at the start of the year	1,310	1,005
Cash and cash equivalents at the end of the year	1,784	1,310
Free cash flow ^a		
Net cash inflow from operating activities	5,387	5,574
Net purchase of property, plant and equipment	(2,874)	(2,945)
Net sale of non-current asset investments	(1)	537

for the year ended 31 March	2006	2005
Dividends received from associates	1	2
Net interest paid	(901)	(886)
Free cash flow	1,612	2,282

^aFree cash flow is defined as the net increase in cash and cash equivalents less cash flows from financing activities (except finance expense) and less the acquisition or disposal of group undertakings.

^bNet debt consists of loans and other borrowings less current asset investments and cash and cash equivalents.

These are not measures recognised under IFRS, but are key indicators used by management in order to assess operational performance.

SUMMARY GROUP BALANCE SHEET

at 31 March	2006 £m	2005 £m
Property, plant and equipment	15,489	15,391
Other non-current assets	2,489	2,821
Current assets	6,722	9,321
Current liabilities	(9,480)	(12,104)
	15,220	15,429
Non-current liabilities	13,613	15,334
Parent shareholders' equity	1,555	45
Minority interests	52	50
	15,220	15,429

This summary financial statement was approved by the Board of Directors on 17 May 2006 and was signed on its behalf by:

Sir Christopher Bland
Chairman

Ben Verwaayen
Chief Executive

Hanif Lalani
Group Finance Director

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AUDITORS' STATEMENT

AUDITORS' STATEMENT TO THE MEMBERS OF BT GROUP PLC

We have examined the summary financial statement consisting of the group's summary financial statements as set out on page 6, the summary directors' report as set out on page 10 and the group's directors' remuneration disclosures as set out on pages 8 and 9.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the BT Group plc Annual Review 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 plc Annual Review with the BT Group plc 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 BT Group plc Annual Review 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 2006 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 17 May 2006

The auditors' report on the full annual accounts for the year ended 31 March 2006 is unqualified and does not contain any statement concerning accounting records or failure to obtain necessary information and explanations.

IMPORTANT NOTE

This summary financial statement does not contain sufficient information to allow for as full an understanding of the results of the group and state of affairs of the company or the group and of their policies and arrangements concerning directors' remuneration as would be provided by the BT Group plc Annual Report and Form 20-F ("Annual Report"). Also, for the company's disclosure on any significant ways in which the company's corporate governance practices differ from those followed by US companies under NYSE listing standards, please see page 46 of the Annual Report. Shareholders who would like more detailed information may obtain a copy of the full Annual Report for 2006 and/or future years, free of charge, by calling our Shareholder Helpline on Freephone 0808 **100 4141** (+44 121 433 4404 from outside the UK) or can view it online at www.bt.com/annualreport

FORWARD-LOOKING STATEMENTS - CAUTION ADVISED

Certain statements in this summary financial statement are forward-looking and are made in reliance on the safe harbour provisions of the US Private Securities Litigation Reform Act of 1995. These statements include, without limitation, those concerning: continued growth in EBITDA, earnings per share, and in new wave revenue, mainly from networked IT services, broadband and mobility growth; implementation of BT's 21st Century Network; expectations regarding progressive dividend policy, dividend payout ratio and cost savings; accelerating transformation of the business; and improving shareholder returns.

Although BT believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: material adverse changes in economic conditions in the markets served by BT; future regulatory actions and conditions in BT's operating areas, including competition from others; selection by BT of the appropriate trading and marketing models for its products and services; fluctuations in foreign currency exchange rates and interest rates; technological innovations, including the cost of developing new products, networks and solutions and the need to increase expenditures for improving the quality of service; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs; timing of entry and profitability of BT in certain communications markets; developments in the convergence of technologies; the anticipated benefits and advantages of new technologies, products and services, including broadband and other new wave initiatives, not being realised; and general financial market conditions affecting BT's performance. Certain of these factors are discussed in more detail in the Annual Report including, without limitation, in Group risk factors. BT undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations in issue as adopted by the EU effective as at 31 March 2006. The transition date for the adoption of IFRS is 1 April 2004. All comparative data in these statements has been restated accordingly with the exception of these policies in relation to financial instruments under IAS 32 [Financial Instruments: Disclosure and Presentation] and IAS 39 [Financial Instruments: Recognition and Measurement]. Further details can be found in note 34 to the Annual Report.

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SUMMARY REPORT ON DIRECTORS' REMUNERATION

INTRODUCTION

This is a summary of the full Report on directors' remuneration in the Annual Report and Form 20-F 2006, a copy of which is available on request or at www.bt.com/annualreport. The full report will be voted on at the 2006 Annual General Meeting.

REMUNERATION COMMITTEE

The Remuneration Committee sets the remuneration policy and individual packages for the Chairman, executive directors and other senior executives reporting to the Chief Executive. It also approves changes in the company's long-term incentive plans, recommends to the Board those plans which require shareholder approval and oversees their operation.

REMUNERATION POLICY FOR EXECUTIVES

BT's executive remuneration policy is to reward employees competitively, taking into account individual, line of business and company performance, market comparisons and the competitive pressures in the information and communications technology industry.

The policy for executive pay, in general terms, is for base salaries to be positioned around the mid-market, with total direct compensation (basic salary, annual bonus and the value of any long-term incentives) to be at the upper quartile only for sustained and excellent performance.

MAIN COMPONENTS OF REMUNERATION

Executive benefits packages comprise a mix of basic salary and performance-related remuneration, as follows:

Basic salary

This is reviewed annually. Basic salaries remained unchanged in 2005/06 with the exception of an increase agreed for Paul Reynolds to reflect his responsibility for delivering the 21st Century Network and a number of key productivity and process improvements.

Performance-related remuneration

- Annual bonus – the annual bonus plan is designed to reward the achievement of results against set objectives. Targets in respect of corporate performance, set at the beginning of the financial year 2005/06 for each objective, were based on earnings per share, free cash flow and customer satisfaction. Approximately 43% of any total bonus is payable in the form of deferred shares under the Deferred Bonus Plan. The shares vest after three years and act both as an incentive and a retention measure.
- Long-term incentives – the BT Equity Incentive Portfolio, comprising share options, incentive shares and retention shares, is designed to ensure that equity participation is an important part of overall remuneration. For the financial year 2005/06, the Committee decided to grant incentive shares instead of the previous year's combination of share options and incentive shares:
 - Awards vest only if a predetermined performance target has been achieved.
 - The performance measure is total shareholder return (TSR) compared with a basket of companies in the European Telecom Sector.
 - BT's TSR at the end of the three-year measurement period must be in the upper quartile for all of the awards to vest. At median, 25% of shares under award would vest. Below that point none of the share awards would vest.

Retention shares are granted in exceptional circumstances to help recruit or retain individuals with critical skills. In the financial year 2005/06, 14 awards were made for recruitment and retention purposes, including one award made to Ian Livingston in connection with his appointment as Chief Executive, BT Retail. A retention arrangement was also introduced last year for Andy Green, Chief Executive BT Global Services, linked to performance targets for that line of business. Under this arrangement, an award of retention shares, with a value of £750,000, will be granted in June 2006.

Financial year 2006/07 policy

No material policy changes were made by the Committee; a small increase was made in bonus potential for target

and stretch achievement by executive directors against the corporate scorecard to maintain market competitiveness. From 1 June 2006, Ben Verwaayen's annual base pay will be increased to £750,000 – his first increase since joining BT in 2002 – and Hanif Lalani's annual base pay will be increased to £460,000, following his successful assumption of, and continuing performance in, the Group Finance Director's role. Cash-based bonus and incentive plans were agreed for Openreach executives, as required by Undertakings agreed with Ofcom.

Pension arrangements

Pensions are based on salary alone – bonuses, other benefits and long-term incentives are excluded.

Those directors and other employees, who joined the company prior to 1 April 2001, are members of the BT Pension Scheme, which is a defined benefits scheme. Andy Green, Hanif Lalani and Paul Reynolds are members of the BT Pension Scheme.

Retirement provision for executive directors and other senior executives who joined BT on or after 1 April 2001 is generally made on a defined contribution basis – the company agrees to pay a fixed percentage (typically around 30%) of the executive's salary each year towards the provision of retirement benefits.

The Committee reviewed the impact of the Lifetime Allowance under the pension simplification legislation which came into force from 6 April 2006. As a result, BT offered those members affected the option to opt out of future accruals of pensionable service and in its place to receive a cash allowance annually (30% of salary for executive directors affected). This was broadly cash neutral for the company.

Other benefits

Other benefits include some or all of: company car, fuel or driver, personal telecommunications facilities and home security, medical and dental cover, special life cover, professional subscriptions and tax planning and financial counselling.

Service agreements

The policy is for the Chairman and executive directors to have service agreements providing for one year's notice by the company. If BT terminates the Chairman's contract before it expires – at the end of the 2007 AGM – he is entitled to payment of salary for 12 months from termination or until the 2007 AGM if that is shorter. Ben Verwaayen is entitled to £700,000 on termination by BT. Andy Green, Hanif Lalani, Ian Livingston and Paul Reynolds are entitled to salary and benefits until the earlier of 12 months from notice of BT's termination of the contract or the director obtaining full-time employment. See the tables opposite for details of directors' emoluments and interests in shares.

[Back to Contents](#)**DIRECTORS' REMUNERATION**

The emoluments of the directors for the year ended 31 March 2006 and the benefits received under the long-term incentive plans were, in summary, as follows:

	Total 2006 £'000	Total 2005 £'000
Salaries	3,058	3,237
Performance-related bonus	2,284	1,449
Deferred bonus in shares	2,441	600
Other benefits	203	419
	7,986	5,705
Payments to non-executive directors	467	391
	8,453	6,096
Total emoluments	8,453	6,096
Gain on the exercise of share options	0	0
Value of shares vested under the executive share plans	652	2,132

Retirement benefits are accruing to three directors under defined contribution arrangements and to three directors and one former director under defined benefit arrangements.

Pensions

Sir Christopher Bland is not a member of any of the company's pension schemes but the company matches his contributions of 10% of the earnings cap, to a personal pension plan. B Verwaayen and I Livingston are not members of any of the company's pension schemes but the company has agreed to pay an amount equal to 30% of salary towards pension provision. The aggregate value of contributions paid, or treated as paid, to defined contribution schemes in the 2006 financial year was £63,360. A Green, H Lalani and P Reynolds are members of the BT Pension Scheme. Additional days of pensionable service are being purchased for A Green, H Lalani and P Reynolds to bring their pensionable service at age 60 up to 40 years.

	Basic salary and fees £'000	Pension allowance net of pension contributions £'000	Total salary and fees £'000	Annual cash bonus £'000	Expenses allowance £'000	Other benefits excluding pension £'000	Total 2006 £'000	Total 2005 £'000
Sir Christopher Bland	500	0	500					