

BT GROUP PLC
Form 6-K
May 28, 2008

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 28, 2008

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: BT Group plc - Annual Report and Form 20-F 2008 as sent to shareholders

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: Deputy Secretary

Date: May 28, 2008

BT Group plc Annual Report & Form 20-F 2008
Annual Report & Form 20-F 2008

**Keeping BT ahead
of the game**

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BT Group plc Annual Report & Form 20-F

Welcome to our 2008 Annual Report.

We have divided the report into four sections:

Overview: this section contains a summary of the strategy, performance and activities of the group as well as messages from your Chairman and Chief Executive

Report of the Directors: this section provides detailed information about what the businesses within BT do and their financial performance in the year. The section also gives details of BT's commitment to the wider community and how we govern ourselves

Financial statements: this section includes the consolidated financial statements, the notes to the financial statements and other useful summary financial information and operational statistics

Additional information: this section provides helpful information for shareholders and a glossary and index to make this report easier to navigate

BT Group plc is a public limited company registered in England and Wales and listed on the London and New York stock exchanges. It was incorporated in England and Wales on 30 March 2001 as Newgate Telecommunications Limited with the registered number 4190816. Its registered office address is 81 Newgate Street, London EC1A 7AJ. The company changed its name to BT Group plc on 11 September 2001. Following the demerger of O2 in November 2001, the continuing activities of BT were transferred to BT Group plc.

British Telecommunications plc is a wholly owned subsidiary of BT Group plc and encompasses virtually all the businesses and assets of the BT group. The successor to the statutory corporation British Telecommunications, it 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 British Telecommunications plc in three public offerings.

This is the Annual Report for the year ended 31 March 2008. It complies with UK regulations and is the Annual Report on Form 20-F for the US 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 notice of meeting (including a summary financial statement) for the year ended 31 March 2008 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 a year are to the financial year ended 31 March of that year, eg "2008" refers to the year ended 31 March 2008. Unless otherwise stated, all non-financial statistics are at 31 March 2008. Please see cautionary statement regarding forward-looking statements on page 154.

A number of measures quoted in this Annual Report are "non-GAAP" measures. The Directors believe these measures provide a more meaningful analysis of the trading results of the group and are consistent with the way financial performance is measured by management. These include EBITDA and profit before taxation and specific items, earnings per share before specific items, earnings per share before specific items and leaver costs, net debt and free cash flow. The rationale for using non-GAAP measures and reconciliations to the most directly comparable IFRS indicator are provided on pages 38, 40-41, 45, 47, 49, 55-56 and 109.

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Overview

Strategic and performance review

Full year dividends per share
(pence)

15.8p

full year proposed dividend
per share □ up 5%

Our strategy

Increased focus on providing global, real-time and open platforms and putting the customer at the heart of our strategy

Our aims

Our ongoing commitment is to increase shareholder value by □

- **driving profitable growth in new wave products and services such as** □
- global networked IT services**
- broadband**
- convergent mobility solutions**

Our achievements

24 quarters of consecutive year on year growth in earnings per share before specific items and leavers
Full year proposed dividend of 15.8 pence per share, up 5%
£1.5 billion paid out as part of share buy back programme

£7.6bn
paid out to shareholders in past 5 years

Coverage and support in 172 countries from our flagship MPLS network service; 25% growth in MPLS revenue
£8 billion BT Global Services order intake
12.7 million broadband lines in the UK (DSL + LLU)
234 million Openzone minutes used in 2008

9%
growth in new wave revenue in 2008

<p>□ maximising the potential of our traditional business through a combination of</p> <ul style="list-style-type: none"> □ enhanced quality of service □ creative marketing □ innovative pricing □ cost efficiency 	<p>54% improvement in consumer service provision lead times On average, 75% of the public instantly recognise a BT consumer TV advert Free weekend calls to UK landlines for consumer customers £625 million costs savings achieved in 2008</p>	<p>£1.5bn cost savings achieved in past 3 years</p>
<p>□ transforming our networks, systems and services for the twenty-first century</p>	<p>Roll out of next generation broadband services from April 2008 80% of new products already using common capabilities New R&D centre in Shanghai; new customer service centre in Hungary</p>	<p>40% of core 21CN infrastructure built</p>
<p>□ and creating long-term partnerships with our customers.</p>	<p>Around 80% of BT Global Services' major contracts are for 5 or more years 70% of consumer revenue under contract</p>	<p>£1.8bn projected value of wholesale managed network services contracts signed in 2008</p>

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Overview

New wave and traditional revenue (%)

BT's retail broadband market share

35%

New wave

31 March 2008 (DSL and LLU)

Traditional

How we performed

Revenue **£20,704 million**, up **2%**

Earnings per share before specific items^b of **23.9 pence**, up **5%**

EBITDA^a before specific items^b of **£5,784 million**, up **3%**

Free cash flow^b of **£1,503 million**, up **11%**

Profit before taxation and specific items^b of **£2,506 million**

Full year proposed dividend of **15.8 pence** per share, up **5%**

Key performance indicators

The key performance indicators against which we measured the success of our strategy in 2008 were: customer service, earnings per share before specific items, and free cash flow.

Customer service

Earnings per share before specific items^b
(pence)

Free cash flow^b

9%

increase in right first time[□]

£1,503

million, up 11%

See page 12 for further details.

Other targets we set for 2008

How we performed

In addition to our stated KPIs, we also said in 2008 we would aim to: continue to grow revenue and EBITDA before specific items	Revenue up 2% EBITDA ^a before specific items ^b up 3%
accelerate the strategic transformation of our business	BT Operate and BT Design fully operational. Successful integration of networks, IT processes and technical product design
introduce two-year £2.5 billion share buy back programme	£1.5 billion returned in 2008
maintain our solid investment grade credit rating	Standard & Poor's: BBB+; Moody's: Baa1; Fitch: BBB+
invest in the growth of the business	£3.3 billion in capital expenditure; around £300 million cost savings reinvested; £480 million invested in acquisitions completed in 2008

a EBITDA: Earnings before interest, taxation, depreciation and amortisation.

b EBITDA before specific items, profit before taxation and specific items, earnings per share before specific items, earnings per share before specific items and leaver costs, EBITDA before specific items, free cash flow and net debt are non-GAAP measures. The rationale for using non-GAAP measures, and reconciliations to the most directly comparable IFRS indicators, are provided in the **Financial review** on page 37.

c Amount presented in respect of year ended 31 March 2004 is presented in accordance with UK GAAP. UK GAAP is not directly comparable with IFRS.

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Our business in brief

BT is one of the world’s leading communications services companies. Our vision is to be dedicated to helping customers thrive in a changing world.

What we do	Who we do it for	Where we operate
<p>Our capabilities range from:</p> <ul style="list-style-type: none"> the provision of a single, domestic telephone line in the UK to the development of an innovative global network infrastructure for the twenty-first century; mission-critical global networked IT services for multinationals to broadband packages for the home; next generation TV to voice over IP services; and innovative calls packages for homes and businesses to value-added services such as online trading communities and comprehensive IT support. 	<p>Our more than 16 million customers range from individual consumers with a single phone line, to government departments and some of the world’s biggest multinational companies.</p> <p>2008 revenue by customer segment (%)</p> <ul style="list-style-type: none"> Major corporate Business Consumer Wholesale/carrier 	<p>BT serves customers in over 170 countries. In order to be where our customers need us to be, we are growing our global business organically and through acquisition.</p> <p>Non-UK regional revenue growth in 2008</p> <ul style="list-style-type: none"> 15% Europe (excluding UK) 19% Americas 66% Asia Pacific

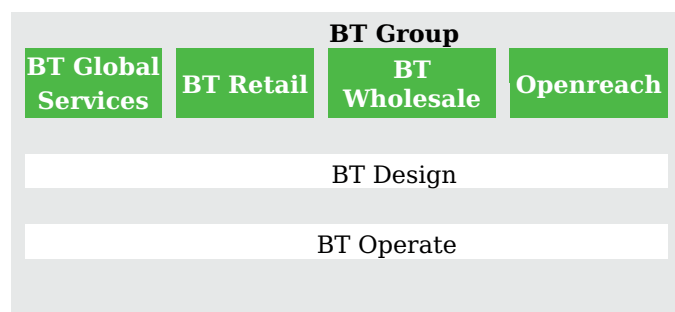
The way we do business		
<p>The BT values capture the way we get things done. They are at the heart of every compelling customer experience.</p>	<p>We are committed to contributing positively to society and a sustainable future. This is at the heart of BT:</p>	<p>We have ISO 9001 certification for most of our operations in the UK and around the world.</p>

<p>Our values are:</p>		
<p>Trustworthy: we do what we say we will</p>	<p>our UK CO₂ emissions are 58% below their 1996 levels and we are committed to achieving an 80% reduction from our 1996 baseline by 2016</p>	<p>We aim to do business in an innovative, ethical and sustainable way in accordance with our published code of practice – The Way We Work. Not only do we believe that’s the right thing to do,</p>
<p>Helpful: we work as one team</p>	<p>we commit a minimum of 1% of our UK pre-tax profits in cash and in kind to activities which support society.</p>	<p>but we also believe that it’s good business – good for customers, good for shareholders and good for the communities in which we operate.</p>
<p>Inspiring: we create new possibilities</p>		
<p>Straightforward: we make things clear</p>	<p>In 2008 BT was ranked as the top company in the telecommunications sector in the Dow Jones Sustainability Index for the seventh year in a row.</p>	<p>We have recently won the following awards:</p>
<p>Heart: we believe in what we do</p>		

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Overview

Our structure



2008 external revenue by line of business
(%)

- BT Global Services
- BT Retail
- BT Wholesale
- Openreach

How we are structured

We are meeting the needs of our different customer groups – major corporates, government and financial institutions; consumers; small and medium-sized enterprises; and other communications providers – through four customer-facing lines of business, supported by two internal functional units.

Business unit

2008 focus

BT Global Services

BT Global Services serves corporate, carrier and government organisations across the world, providing high-performance managed networked IT services, application management, professional services and outsourcing solutions.

We continued to grow the business, listened to our customers' needs and focused on offering and delivering new high-value, mission-critical services and propositions. As a result:

- Over 60% of Fortune Global 500 companies and over 65% of FTSE 100 companies are our customers
- With EBITDA margins^a of 11.2%, we are making progress towards our 15% target.

BT Retail

BT Retail serves consumer customers and small and medium-sized enterprises in the UK, providing a range of innovative products and services. It also comprises BT Ireland and our Enterprises division.

We focused on providing retail customers with a range of services to help them communicate more effectively, access entertainment and manage their lives and we helped SMEs concentrate on what they do best:

- BT is the UK's most popular broadband retailer
- Around 1 million businesses rely on us.

BT Wholesale

BT Wholesale brings economies of scale to 700+ UK communications companies, through a diverse portfolio ranging from nationally available broadband, voice and data connectivity services and interconnect, to bespoke, fully managed network outsourcing and value-added solutions.

We continued to provide services to carriers and, increasingly, our focus has been on the provision of innovative managed network solutions:

- Four-year outsourcing deal with the Post Office
- Provision of voice network management services to Virgin Media.

Openreach

Openreach is responsible for the crucial 'first mile' connecting communications providers' customers to

We focused on continuing to deliver and comply with the Undertakings made to Ofcom, while driving efficiencies

their local telephone exchange, giving them equal, open and economic access to the UK network.

and enhancing service levels. We achieved significant progress in enhancing the competitive environment in the UK communications services market:

4.3 million unbundled non-BT lines in the UK

Over 40% improvement in service provision lead times.

BT Design and BT Operate

BT Design is responsible for the design and deployment of the platforms, systems and processes which support our products and services, and BT Operate is responsible for their operation. BT Design is also implementing our UK twenty-first century network infrastructure.

a Before specific items and leaver costs.

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Chairman's message

I am pleased to report that we are recommending a full year dividend of 15.8 pence per share, up 5% from last year, reflecting the group's strong performance and the Board's continued confidence in the future of the business.

Thanks to Ben and Christopher

Before saying anything else, I want to pay tribute to your Chief Executive of the past six and a half years, Ben Verwaayen, who will be stepping down on 1 June 2008. Ben has been a truly exceptional Chief Executive. His courage, determination, vision and energy have transformed BT.

When he arrived in 2002, BT was a deeply troubled organisation with huge debts and an uncertain future. Since then, under his leadership, BT has delivered Broadband Britain, built a successful and fast growing global operation and changed the regulatory landscape in the UK through the creation of Openreach. This has enabled the most competitive broadband market in the world to flourish. Ben has also overseen the creation of a diverse and hugely impressive talent pool in BT at executive team level and throughout our many operations and specialist businesses around the world. He has restored pride in BT and I know that he feels that in many ways this will prove to be his most important legacy.

Great credit is also due to my predecessor Sir Christopher Bland who stepped down in September. He was an outstanding Chairman to whom I and the rest of BT owe a tremendous debt of gratitude.

Number one for customer service

I've been at BT for eight months and have enjoyed my time here enormously. Having had a chance to meet BT people and get a first hand view of operations, I am convinced that we have the right strategy and, just as importantly, the right team to take it forward. That team consistently demonstrates that it has the imagination and agility to deliver for our customers.

We need to drive standards higher for the whole of the industry. Being number one for service in our own sector is simply no longer good enough. We have to make outstanding customer service a differentiator for BT. That will enable us to build on our position as Britain's favourite broadband provider, grow our wholesale and global businesses, and drive down the costs we incur when things go wrong.

The transformation that Ben and Christopher initiated continues.

Our wider responsibilities

It is vitally important for companies to be responsible and contributing members of the communities in which they operate. BT has an enviable track record when it comes to living up to its social and environmental responsibilities and I am delighted that we won Business in the Community's prestigious Company of the Year award for our positive impact on society. The award goes to the company judged to be improving its business and its overall impact on society, in the marketplace, the workplace, the environment and the community, through leadership and integration of responsible business practices. We were also the top telecommunications company in the Dow Jones Sustainability Index for the seventh year in a row.

The importance of such awards is that they highlight all the hard work, imagination and commitment throughout our organisation that is focused on operating in an ethical, sustainable and socially responsible way.

Around one third of BT people are involved with corporate social responsibility related activities. We provide the manpower and technology for major charity appeals including Children in Need and Comic Relief, and we are working closely with children's charity Childline on a campaign to ensure that no call for help goes unheard.

As we increasingly operate globally, so the emphasis is on being good citizens of the world and making a difference worldwide. For example, when your Board recently held a meeting in India, we were able to see the marvellous work that the Katha IT and E-commerce School (KITES) which BT supports is doing for kids in one of

Delhi's slums.

We recognise that we have a responsibility to the environment and aim to be a leader in the new low-carbon economy. Ben Verwaayen chaired a recent CBI task force which was set up to make recommendations on combating climate change. And we are very conscious of the importance of reducing our emissions and reducing waste in-house. Our CO₂ emissions in the UK are 58% lower than they were in 1996 and we aim to improve this to 80% by 2016. Our contract to purchase green energy is one of the largest in the world and we are developing wind powered projects which should meet up to 25% of our UK electricity needs by 2016.

Regulation

The creation of a genuinely competitive environment, wherever we operate around the world, is fundamental to our continued ability to meet our customers' needs.

In the UK, it is vital that the regulatory environment should enable us to make the necessary investments in the next generation of the UK's communications infrastructure with confidence.

In the European Union we are also looking for a level playing field that allows BT access to other markets.

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We have to make outstanding customer service a differentiator for BT.

Sir Michael Rake Chairman

Your Board

I'm delighted that Ian Livingston is taking over from Ben as your Chief Executive. He has delivered brilliantly for BT, both as Group Finance Director and CEO of BT Retail. He was the clear choice of the Board after a rigorous process. He leads a team of executive directors of exceptional talent: Hanif Lalani, who was recently named the 2008 Real FD/CBI finance director of the year (FTSE 100); François Barrault, CEO of BT Global Services; and Gavin Patterson, who has been CEO of BT Retail since 1 May 2008.

I'd like to thank Andy Green and Paul Reynolds both of whom stepped down as executive directors during the year. They provided first-class support for Ben over a number of years and I wish them well in their new careers. My thanks also to Larry Stone who provided excellent support to the Board as Company Secretary for the past six years, and who moves on to become BT's President of Group Public and Government Affairs. He is replaced by Andrew Parker who was previously General Counsel, BT Retail.

There have also been a number of changes to your non-executive team during the year. Baroness Margaret Jay and John Nelson both left after six years of invaluable service to BT. In their place, I would like to welcome two new non-executive directors, both of whom bring a wide range of skills and experience with them. In addition to a distinguished political career, Patricia Hewitt has extensive business and international experience. Eric Daniels is group CEO of Lloyds TSB. In addition, his years as chairman and CEO of Zona Financiera, a leading Latin American financial portal, will be of great value to us as we seek to build further our presence in the region.

A Games for the Digital Age

I'm very proud to report that in March 2008 we announced that BT had been selected as the official communications services partner for the London 2012 Olympic Games and Paralympic Games.

As a company committed to the proposition that better communications can mean better lives and a better world, we will be providing the communications services infrastructure for one of the world's greatest sporting events and putting the BT brand at the heart of "a Games for the Digital Age". The partnership will be a fantastic opportunity to showcase BT and our capabilities – who we are, what we believe in and what we can do – in the context of a key event in the life of the nation.

I'm also delighted that BT is giving a boost to Team GB athletes by helping fund their journey to the Beijing Olympic Games in August.

From our perspective, the countdown to London 2012 has already started.

The future

Looking to the future, BT will continue to deliver on its strategy and to create new and exciting ways for our customers to communicate and collaborate. That strategy is creating value for our shareholders. In 2009, we expect to deliver continued growth in revenue, EBITDA and earnings per share as we continue our transformation from a fixed-line business into a software-driven global communications services company. We also expect our free cash flow to be at a similar level to 2008 and to increase dividends per share in 2009. I

believe that we have the right team in place and the right culture throughout the organisation – an absolute commitment to the customer and a determination to get it right first time. There is every reason for optimism.

Sir Michael Rake
Chairman
14 May 2008

a Before specific items and leaver costs.

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Chief Executive's statement

This is the last time I shall be writing to BT's shareholders as Chief Executive, so I should start off by saying thanks for your support and for the dialogue we have shared over the past six and a half exciting years. During that time, I've had the privilege of leading your company on an amazing journey – from a UK-focused lines and calls business to a global communications services company.

Leadership has a limited shelf-life. The time comes in any organisation when it is good to refresh the leadership. Well-managed companies plan ahead for a smooth succession to a new leader. And that's just what we've been doing. I have fought a battle between my heart, which tells me to stay with this great company, and my head which says it's time to go. Finally my head has won!

I'm particularly proud of the fact that today's BT is a company with such strength and depth that we have been able to appoint our new Chief Executive – Ian Livingston – internally. Ian is a great guy who is supported by a world-class team and I know I am leaving the company in the best possible hands. New leaders set organisations new challenges and pose new questions. I'm confident that Ian and his team will be doing just that.

Delivery through transformation

By following a consistent strategy we have created a business model in which delivering consistent financial improvement has become a habit. We have delivered 24 consecutive quarters of growth in EPSa (earnings per share). Back in 2002, EPSa was 9.0 pence per share. Fast forward six years, and that number is 23.9 pence per share. That's grown more than two and a half times.

In 2002, recognising that parts of our traditional business were in decline, we adopted the strategy of growing new wave revenue – from broadband, mobility and global networked IT services. In 2008, new wave activities accounted for 39% of total revenue. The new wave really has become business as usual.

This absolute commitment to delivery has underpinned the transformation of the UK's communications infrastructure, one of UK plc's most vital assets.

Take broadband. In April 2002 when we first set targets for broadband, there were just under 150,000 DSL connections in the UK. When we said we would achieve five million connections in five years people said we were crazy. In the end we achieved ten million.

Local loop unbundling (LLU) – which enables other communications providers to offer their own services with their own brand and pricing structures over the BT network – has triggered one of the most fundamental changes in the communications industry in a generation. A couple of years ago, we were aiming for a target of 1.5 million unbundled lines for non-BT communications providers. At 31 March 2008 we'd reached 4.3 million.

Operationally 2008 was a very strong year in which we continued to deliver for customers around the world.

A global company

A year ago I made the point that all our customers are increasingly thinking and acting like global citizens. If BT is to continue to deliver for them we have to be a global business with local presence and insight.

That means being where our customers want us to be, bringing our customers the best services and technology from around the world, understanding local customs, and thinking global in everything we do. We operate in over 170 countries and are serving customers worldwide. Our non-UK revenue was up 18% in 2008 and accounted for 17% of the group's total revenue.

We have a long-established presence in North America and continental Europe, but we're also increasingly committing to exciting and fast growing markets such as Asia Pacific, Latin America, the Middle East and Africa, and Eastern Europe. We have been building a genuinely global workforce with 17 nationalities represented in the

company's top 200 managers. During the year, we opened new R&D facilities in China and Hungary and a shared services centre in India. And we continued to win and deliver on a wide range of long-term global networked IT services contracts around the world. In Asia Pacific we have witnessed spectacular revenue growth of 66%.

Delivering a better network

Our Openreach access network business may only have been in existence for a couple of years, but it has made great progress in its drive to deliver a better network. Set up to ensure equal access to the first mile of BT's UK access network, it has been focused on providing a local access environment in which its customers' businesses can thrive.

The results speak for themselves.

During the 2008 financial year, Openreach reduced the average lead times for the provision of services to businesses by 40% and those offered to consumer customers by 54%. Of course, delivery is also about putting things right when they go wrong. Lead times for business repairs improved by 54% and for consumer repairs by 44%.

Transforming our wholesale business

The success of LLU has reshaped the competitive landscape in the UK. It certainly changes the nature of our wholesale business. Wholesale revenue declined in the 2008 financial year, in part as a result of volume decreases resulting from migrations to LLU. This came as no surprise, and we have a strategy in place to deal with the change, seizing the opportunity to reposition ourselves as a leading provider of wholesale managed network solutions.

As the industry migrates from traditional to next generation services we can help our customers negotiate this transition and transform their businesses. During 2008, we signed a number

a Before specific items and leaver costs.

b From continuing activities before goodwill amortisation and exceptional items, reported under UK GAAP.

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It's a pretty inspirational story and I'm very proud to have been associated with it.

Ben Verwaayen

Chief Executive

of major managed network services contracts worth a projected total of £1.8 billion over their lifetimes. These range from a major outsourcing contract with the Post Office to providing enhanced connectivity for mobile operators T-Mobile, Orange and Virgin Media.

New communications possibilities

In a highly competitive retail market, we have continued to wow our customers with new communications possibilities. Consumer customers can now choose from an innovative range of broadband services, including BT Total Broadband Anywhere which ensures that the broadband experience is available all the time, at home and on the move. Or they can tune in to new possibilities in entertainment. BT Vision, our next generation TV service, already offers a rich selection of content with much more to come. The emphasis with our SME customers is to help them succeed by letting them do the things they do best while we look after their IT and communications needs. They can run their businesses while accessing the type of IT and communications services previously available only to larger corporations.

The people who make it happen

So, BT is a company with a strong track record of delivery. We have proved that we will deliver what we promise and we have proved that our commitment to innovation really makes a difference for our customers.

But none of this could have happened without the creativity, skills and enthusiasm of BT people. And I'd like to thank them all for the unwavering support they've given me and for their unflagging commitment to our strategy. In one sense the story about the way this business has changed in the past few years has less to do with broadband or LLU or earnings per share. It's a story about people. Specifically, it's a story about people who are proud to work for the company, who have dared to dream and who recognise the absolute importance of meeting the needs of their customers now and in the future.

I think it's a pretty inspirational story and I'm very proud to have been associated with it. The more that I see the results coming through in this business and the more I see BT people stepping up to the challenge, the more convinced I am that this company will continue to do great things in the future.

Ben Verwaayen
Chief Executive

14 May 2008

Ian Livingston

Message from Ian Livingston

It is a great honour to be taking over from Ben Verwaayen as CEO of one of the world's great companies. Since joining the BT Board in 2002, I have worked very closely with Ben and have seen up close the passion and leadership he has brought to the job. He has transformed the company, restored the pride of BT people, and placed us on a course towards further profitable growth and a future full of exciting possibilities.

Looking across the markets in which BT operates there is no shortage of people who are focused on the challenges, but I and the rest of the management team see enormous opportunities ahead.

Globally we have established ourselves as a world leader, helping multinational organisations transform themselves to get the most out of globalisation. The continuing rapid growth of emerging economies and of world trade puts us in pole position as a provider of networked IT services.

In the UK, demand for broadband everywhere and for new services to be delivered over broadband means the next five years are shaping up to be just as stimulating and full of commercial opportunity as the last.

We need to seize these opportunities while keeping a relentless focus on being number one for customer service. We must deliver the financial returns that our shareholders have every right to expect, and work hard to create a regulatory climate in which we can continue to invest for the future.

I take on my new role very proud of what BT has achieved under Ben's leadership, and certain that the coming years will be more exciting still.

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<u>18</u>	<u>New entertainment services</u>	<u>33</u>	<u>Group risk factors</u>
<u>18</u>	<u>Support and security</u>	<u>33</u>	<u>Regulatory controls</u>
<u>18</u>	<u>Traditional services for consumers</u>	<u>34</u>	<u>Competition in UK fixed-network services</u>
<u>19</u>	<u>Business customers in the UK</u>	<u>34</u>	<u>Technological advances</u>
<u>19</u>	<u>Broadband for business customers</u>	<u>34</u>	<u>Transformation strategy</u>
<u>19</u>	<u>New services for business customers</u>	<u>34</u>	<u>Major contracts</u>
<u>20</u>	<u>Wi-Fi in the community</u>	<u>35</u>	<u>Networks and systems failures</u>
<u>20</u>	<u>Wholesale customers</u>	<u>35</u>	<u>Pensions</u>
<u>20</u>	<u>Managed network services contracts</u>		
<u>20</u>	<u>New wholesale products</u>		
<u>21</u>	<u>Traditional wholesale portfolio</u>		
<u>21</u>	<u>Openreach and the UK access network</u>		
<u>22</u>	<u>Building our twenty-first century network</u>		
<u>23</u>	<u>Keeping our costs down</u>		
<u>23</u>	<u>Acquisitions and disposals</u>		
<u>23</u>	<u>2008</u>		
<u>24</u>	<u>Post-balance sheet event</u>		

Please see **Cautionary statement regarding forward-looking statements** on page 154.

The Directors consider that the Report of the Directors has been prepared in accordance with the principles in the Reporting Statement on the Operating and Financial Review issued by the Accounting Standards Board.

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Report of the Directors

Business review

Over the past year we have worked hard to ensure that our customers are at the heart of everything we do. We have been focused on providing enhanced, value for money services that offer less complexity and more capability, flexibility and speed.

Introduction

BT is one of the world's leading communications services companies, operating in over 170 countries worldwide. Our principal activities include the provision of:

- networked IT services globally;
- local, national and international communications services;
- broadband and internet products and services; and
- converged fixed/mobile products and services.

Our vision

Our vision is to be dedicated to helping our customers thrive in a changing world. Dedication to our customers is vital in a competitive market. By designing everything we do around our customers, we can help them succeed on their terms.

We aim to be a global leader in converged communications services. Convergence – bringing together fixed-line and mobile technologies, IT and communications, networks and services – is at the core of what we offer our customers. At BT, we call this – unified communications.

Our strategy

Our strategy is to increase shareholder value by:

- driving profitable growth in new wave markets;
- defending our traditional business;
- transforming our networks, systems and services for the twenty-first century; and
- creating long-term partnerships with our customers.

Driving profitable new wave growth

At a time when next generation products and services are radically reshaping the communications industry, customers have more choice than ever before. But more choice can mean more complexity. Which is why we aim to offer straightforward and comprehensive services, backed by levels of customer service that set us apart from our competitors.

In the 2008 financial year (2008), 39% of our revenue came from new wave and next generation products and services – primarily networked IT, broadband and convergent mobility solutions. This is up from 36% in the 2007 financial year (2007). New wave revenue grew by 9% in 2008, mainly driven by growth in networked IT services

and broadband.

Global networked IT services

We are a business operator running our customers' mission-critical networked IT services, to allow them to focus on their core business. We do this to create value in partnership with our customers, including co-investing and co-innovating so that they can create long-term value for their customers. We are a global leader in our target markets, competing with the world's best. In recent years we have proved our ability to deliver both local and global networked IT services contracts for large corporate customers and other organisations – including the government and public sectors – around the world. We have a comprehensive portfolio of services, supported by tens of thousands of highly skilled professional services people. Revenue from networked IT services for 2008 was £4,841 million, up 10% on the previous year.

Broadband in the UK

We continue to enhance the availability and attractiveness of broadband in the UK. At 31 March 2008, we had 12.7 million broadband lines, including 4.3 million LLU (local loop unbundling) lines. Broadband is available through our wholesale business to 99.6% of the UK's homes and businesses.

In the highly competitive retail market, our market share of consumer and business DSL (digital subscriber line) and LLU broadband connections was 35%, compared with 34% in 2007. With 4.4 million broadband connections, we continue to be the UK's most popular broadband retailer. During 2008, revenue from broadband services grew by 10% to £2,219 million.

Convergent mobility solutions

In the converged world, individuals and businesses increasingly need to connect and communicate wherever they happen to be, using whatever device they choose. We offer a range of mobility services in both the consumer and business markets. BT Openzone, for example, is one of the leading Wi-Fi (wireless broadband) services in the UK and at the heart of our 'wireless cities' initiative (see **Wi-Fi in the community** on page 20). Customers signing up to our broadband packages get Wi-Fi minutes included and we offer Wi-Fi roaming via 3,000 premium BT Openzone hotspots in the UK and Ireland and a further 40,000 around the world.

In 2008, group mobility revenue was up 18% at £348 million, compared with £294 million in 2007. At 31 March 2008, we had a total of 360,000 mobile connections. We also further extended the European coverage of our mobility offering in 2008 through MVNO (mobile virtual network operator) agreements with Vodafone in Spain and Italy.

Defending our traditional business

We continue to face challenges in our traditional markets as a result of increased competition, a shift in our customers' buying patterns and a challenging regulatory regime. In response to these conditions, we aim to make our traditional services – mainly calls and lines – ever more compelling for customers. For example, by combining voice services in attractive new ways, we can continue to add value to our customers' lives and businesses. Revenue from traditional services was £12,661 million

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Report of the Directors Business review

DSL broadband connections
quarter end (million)

MPLS coverage and support at M

LLU

External
wholesale
broadband

BT's retail
broadband

in 2008. This represents a rate of decline of only 1% compared with 3% in 2007.

Transforming our networks

Our strategy is to build innovative, software-driven global networks that provide platforms for the rapid delivery of flexible and resilient new services that transform the customer experience and enable us to operate more cost effectively. Our global 21CN (twenty-first century network) is helping to define communications networks for the future and we are investing in a flexible systems infrastructure throughout BT. At 31 March 2008, 40% of the core 21CN infrastructure had been built.

At the heart of a networked Britain

BT has the most comprehensive fixed-line communications network in the UK, with around 5,600 exchanges, 670 local and 120 trunk processor units, more than 125 million kilometres of copper wire and over 10.8 million kilometres of optical fibre, and an extensive IP backbone network.

Our global footprint

We have one of the most extensive IP-enabled networks in the world, stretching from Europe to North and South America, the Middle East, Africa and the Asia Pacific region.

In 2008, we focused on enhancing the quality of our flagship MPLS (multi-protocol label switching) network service which provides coverage and support in 172 countries from more than 800 BT managed PoPs (points of presence) and more than 2,500 PoPs in partnership. We installed an average of more than 3,100 new customer sites a month on our MPLS network during 2008. As a result, MPLS revenue for 2008 grew by 25% to £815 million.

Global customer service is provided via service and network management centres around the world, 24 hours a day, seven days a week. In November 2007, BT won the World Communications Association award for "Best Customer Care". Widely recognised as a leading global industry event, the scheme celebrates business excellence and outstanding service.

Creating long-term partnerships

Our customers are at the heart of what we do and improving customer service is a critical focus for us. Understanding our customers' needs and responding to them quickly and with insight helps to set us apart from our competitors.

We explain elsewhere in this Business review how we are, for example, focusing on areas such as networked IT services contracts (see **Networked IT services** on page 15) as part of this long-term partnership strategy. At 31 March 2008, around 80% of our global services business unit's major contracts were for five or more years, and 70% of consumer revenue was under contract.

How do we measure our success?

For 2008, the KPIs (key performance indicators) against which we measured the success of our strategy were: customer service; earnings per share before specific items; and free cash flow.

Being number one for customer service

Our goal is to become number one for customer service. We believe that this is the vital differentiator in all the markets in which we operate. In order to measure our progress, we have changed our main customer measures to reflect more directly the real experience our customers have from start to finish. The key measures we now use are "right first time" and "cycle time":

"right first time" is the most important measure of whether we are keeping our promises to our customers and meeting or exceeding their expectations; and

"cycle time" is the time between the start and finish of each and every customer experience – for example, the time elapsed between a customer's initial attempt to contact BT and receipt of the relevant service and payment of the bill.

We are focusing on getting things "right first time" because this will streamline the customer experience and reduce "cycle times". We set ourselves the group-wide target in 2008 of improving "right first time" by 11%. In fact, we achieved an increase of around 9% and, for the 2009 financial year (2009), our target is to achieve an even greater year on year improvement.

All parts of BT are required to implement "right first time" plans for their customers, and a number of "right first time" initiatives have been introduced. These range from the prioritisation of sales queue activities, clean order entry and validation, accurate billing and closer working with suppliers throughout our global operations, through to a drive in our retail operations relating to the provision and repair of products and services. In our consumer business, for example, a rigorous emphasis on "right first time" has driven major improvements in the experience of customers using our broadband technical help services. Thanks to the introduction of new processes, a restructuring of the call centre and the delivery of customer-focused training programmes, our front line advisers have been able to deal with customers more effectively. Customer dissatisfaction levels have fallen as advisers have been able to handle a higher proportion of customer contacts, without the need to pass them on to colleagues.

Although the principal emphasis during the year was on "right first time", we also paid close attention to "cycle time". In particular, we have been driving "cycle time" improvements through individual product lines.

Earnings per share

Basic earnings per share before specific items was 23.9 pence in 2008 compared with 22.7 pence in 2007 (an increase of 5%)

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Report of the Directors

Business

2008 external revenue by line of business

(%)

BT Global Services

BT Retail

BT Wholesale

Openreach

and 19.5 pence in the 2006 financial year (2006). For details of how we calculate earnings per share, see page 47. Earnings per share before specific items is a non-GAAP measure. For further discussion of non-GAAP measures, see page 55.

Free cash flow

Free cash flow in 2008 was £1,503 million, compared with £1,354 million in 2007 (an increase of 11%) and £1,612 million in 2006. For details of how we define free cash flow, see page 49. Free cash flow is a non-GAAP measure. For further discussion of non-GAAP measures, see page 55.

Transforming BT

BT is engaged in a process of radical transformation – from a fixed-line business to a software-driven global communications services company. In 2008, we invested £402 million in this transformation. Increasingly, communications infrastructures are no longer just the physical network; what is becoming more important now are the layers of software that make it possible to manage the network without the need for physical intervention. The development of –common capabilities–, or reusable components, is increasingly enabling us to meet customers' needs quickly and flexibly. 80% of our new products already use common capabilities.

A year ago we announced a new structure designed to enable us to transform the way we offer services to our customers. Today, we are one of the world's first communications companies to have achieved the integration of its networks, IT, processes and technical product design. This enables us to create end-to-end processes, remove unnecessary complexity and bring BT people closer to our customers. See **Our IT systems and networks estate** on page 30 for more information about our systems and networks.

Outlook

In our outlook statement in our 2007 Business review, we said that we had confidence that we could continue to grow revenue, EBITDA before specific items, earnings per share before specific items, and dividends in 2008. We have successfully delivered growth in all these areas.

In addition, we stated we were confident in our ability to improve shareholder returns and accelerate the strategic transformation of the business. In 2008, we paid out £1,236 million in dividends, and BT Operate and BT Design are now fully operational. By 31 March 2008, we had returned £1.5 billion as part of our £2.5 billion share buy back programme. We have maintained our solid investment grade credit rating (Standard and Poor's: BBB+; Moody's: Baa1; Fitch BBB+) and continued to invest in capital expenditure and acquisitions to underpin the growth of the business.

In 2009, we expect to continue to increase our earnings per share before specific items and lever costs, despite the year on year reduction in the net finance income associated with pensions. We also expect to continue to deliver revenue growth as we continue our transformation. Our continued focus on driving efficiencies across the group is expected to generate further gross cost savings of some £700 million which will contribute towards

growth in EBITDA before specific items and lever costs.

Capital expenditure is expected to reduce to around £3.1 billion in 2009. We expect to continue to generate good cash flow from our operations, with free cash flow anticipated to be at a similar level to 2008.

We remain committed to delivering value for shareholders and expect to increase dividends in 2009.

How BT is structured

BT has four customer-facing lines of business: BT Global Services, BT Retail, BT Wholesale and Openreach, all supported by two internal functional units: BT Design and BT Operate.

BT Global Services is a global business operator; BT Retail, BT Wholesale and Openreach operate mainly within the UK, where BT is the largest communications services provider to the residential and business markets.

BT Global Services

Revenue in 2008 increased by 8% to £7,889 million, compared with £7,312 million in 2007. Non-UK revenue grew by 21% in 2008 and new wave revenue grew by 10%. Total orders were £8 billion in 2008.

BT Retail

Revenue in 2008 increased by 1.6% to £8,477 million, compared with £8,346 million in 2007. New wave revenue, mostly broadband, grew by 20%, while traditional revenue, mainly calls and lines, decreased by 3%.

There are four parts to BT Retail:

Consumer: at 31 March 2008, we had 15 million UK consumer customers with around 19 million residential customer exchange and broadband lines;

BT Business: at 31 March 2008, we had around one million business customers in the UK, who between them had 7.5 million business customer exchange and broadband lines;

BT Ireland, which operates across the major business, SME, consumer and wholesale markets throughout the Republic of Ireland and Northern Ireland; and

Enterprises, which comprises a number of individual businesses: BT Conferencing, BT Directories, BT Payphones, BT Redcare (monitoring and tracking facilities), BT Expedite (a specialist retail division offering retail integration solutions and services) and dabs.com (a leading internet-based retailer of IT and technology products).

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Business review

60% of Fortune Global 500
companies
have contracts with us