

BT GROUP PLC
Form 6-K
May 22, 2014
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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 22, 2014

BT GROUP PLC

(Translation of registrant's name into English)

BT Centre

81 Newgate Street

London EC1A 7AJ

England

Edgar Filing: BT GROUP PLC - Form 6-K

(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 & Form 20-F 2014 as sent to shareholders

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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/ Dan Fitz
Name: Dan Fitz
Title: Company Secretary

Date: May 22, 2014

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The Purpose and strategy, Delivering our strategy and Group performance sections on pages 13 to 74 form the Strategic Report. The Governance section on pages 75 to 115 forms the Report of the Directors.

We present the audited consolidated financial statements on pages 122 to 176 and 181.

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[Chairman's introduction](#)

The investments we are making are delivering [for both BT and the UK.](#)

This has been an important year for BT. Our investments are delivering and contributed to a strong set of results.

Our investments

We have continued to invest in the long-term health of our business. We have brought fibre broadband in reach of more than 19m UK premises – around two thirds of the country. Our rollout is well ahead of our original target and we are now rapidly expanding into rural areas as part of the Broadband Delivery UK (BDUK) programme. Thanks to our investment, the UK now has the widest coverage of high-speed broadband of the five largest countries in Western Europe. Average broadband speeds are almost 50% higher than they were a year ago. Our fibre investment will take many years to pay back. But it is the right thing to do for our customers and for BT – and it will drive significant economic benefits for the UK.

We successfully launched BT Sport in the year. We are making premium sports content widely available at significantly lower prices than previously provided in the market. Nine months on from launch, we have around 3m direct BT Sport customers and with our wholesale deals, it is now in around 5m homes. BT Sport has driven strong take-up of broadband, slowed customer loss and contributed to BT Consumer delivering its best revenue growth in over ten years. We also increased the range of non-sports content on BT TV, which now has 1m customers.

Our mobility plans are progressing well and give us a real opportunity to expand the range of services we provide to customers. The investments we are making in our IT services capabilities will also make us more valuable to businesses in the UK.

While our customer service improved this year, it was not good enough. This was partly because our resources were stretched by the widespread flooding across the UK and the strong demand for BT Sport. We are making our networks more resilient, recruiting more engineers and contact centre agents and investing to improve our systems and

processes. We need to deliver a step-change to provide a superior service to all our customers.

Our global presence

A significant proportion of our revenue is generated outside the UK, mainly from servicing large multinational businesses. BT Global Services has consolidated its leadership position in the market for managed networked IT services and grew its order book by 9%. It has also reduced its cost base, contributing to its cash flow increasing by over 80% in the year.

To best serve our multinational customers it is critical that we have fair access to networks across the world. Other operators can use our networks in the UK on favourable terms. Yet in the US and some European countries incumbents are allowed a distinct advantage in their home markets.

We have therefore worked with the European Commission to genuinely complete the digital single market, and with the US Federal Communications Commission on improved access to the US market. We are encouraged by progress over the last year in the EU-US TTIP trade talks which should deepen transatlantic economic integration and reduce non-tariff barriers. We will continue to lobby actively on these important issues and hope to see further progress in the year ahead.

Our people

Our performance this year reflects the hard work and commitment of our people. Our engineers are of particular note, working tirelessly to fix faults caused by the widespread flooding in the year. Our people also give back in other ways. They volunteered over 46,000 days of their time to help over 1,300 charities across the globe. So I am pleased that almost 17,000 benefited from employee share option plans in the year and that over 28,000 stand to benefit from similar plans during 2014/15 – a significant reward for much-appreciated hard work.

The Board and governance

There have been a few changes to our Board and executive team. I am delighted to welcome Warren East, previously chief executive of ARM Holdings, who joined the Board on 1 February; and Iain Conn of BP, who will join on 1 June 2014. They both bring a wealth of experience. I would also like to thank The Rt Hon Patricia Hewitt for the advice and service she has given during her six years on the Board, from which she retired in March 2014.

The most notable change, of course, was in our chief executive, after Ian (now Lord) Livingston was appointed to be Minister of State for Trade and Investment. I would like to thank Ian for the significant personal contribution he made both to the development and the execution of our strategy. He has been replaced by Gavin Patterson, previously CEO, BT Retail. Gavin is a fitting and experienced successor and leads a very capable team. I have every confidence that BT will make yet further progress under his leadership.

Our shareholders

As a result of our strong performance this year, the Board is proposing a final dividend of 7.5p, up 15%. This gives a full year dividend of 10.9p, also up 15%. We remain committed to paying progressive dividends to our shareholders and expect dividends to grow by 10%-15% for each of the next two years.

Our goal is to deliver sustainable, profitable revenue growth supported by the investments we are making. We made notable progress towards this goal in the year. I am confident BT will make further progress in the period to come, delivering long-term value for our shareholders.

Sir Michael Rake

Chairman

7 May 2014

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Who we are and what we do
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Our purpose

Our purpose is to use the power of communications to make a better world. By bringing together the best networks and technology with the expertise of our people, we make connections and create new possibilities.

We use the power of
communications to
make a better world

Our values

We have updated our corporate values to reflect what really matters to our people. We use these values to guide the way we work, creating a culture that encourages everyone to get involved in changing things for the better.

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Our strategy

We are committed to growing a successful business by being valuable to customers and society, and to delivering value to our shareholders.

This Annual Report reflects the strategy that was in place during the year, which was about making BT a better business with a better future .

Our strategy has been based on three foundations which build on one another: customer service delivery, cost transformation and investing for the future.

The better we serve our customers, the less time and money we need to spend putting things right. By transforming our costs, we create opportunities for investing in our future. By investing in the six strategic priorities shown below our aim has been to grow the value of our business.

We are now a better business than we were and our strategy is evolving. Our six strategic priorities that have served us well are also evolving.

Looking ahead, our focus is shifting more towards our goal of delivering sustainable, profitable revenue growth. We aim to achieve this through investing in five strategic growth areas: fibre; TV and content; mobility and future voice; UK business markets; and leading global companies (you will find more on these in the case studies throughout the report).

And we want to broaden and deepen the relationships we have with our customers. But the foundations of our strategy remain largely the same – deliver superior customer service, transform our costs and invest for growth.

Read more about our strategy on page

Our business model

Our business model delivers value to our shareholders, customers and society.

The unique combination of our people, technology and networks, together with the products and services we sell, sets us apart from our competitors. And we have the financial strength to invest in these to make sure we stay ahead.

The three foundations of our strategy – customer service delivery, cost transformation and investing for the future – are at the heart of the way we run our business. Improving our customer service helps our customers but also allows us to reduce the cost of serving them.

This reinforces our financial strength and helps us to invest in our business and our people. The cash that we generate from selling our products and services in the UK and around the world helps us reward our shareholders and fulfil our other financial objectives.

What we do also matters to the communities we are in and to wider society. We make connections, create new possibilities and deliver value. We are confident our business model will deliver value today and in the future.

Read more about our business model on page

Our risks

Like all businesses, we are affected by, and must manage, risks and uncertainties that can impact our ability to deliver our strategy.

Read more on page

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Key performance indicators

We measure our progress using four key performance indicators (KPIs).

This year we introduced a revenue growth measure – the trend in underlying revenue excluding transit – as a KPI. It reflects our goal to deliver sustainable, profitable revenue growth for the group. Underlying revenue excluding transit was up 0.5% this year, in line with our outlook of an improved trend compared with the 3.1% decline last year.

We grew adjusted earnings per share by 7%. Normalised free cash flow of £2.45bn was also up 7% and ahead of our outlook for the year of around £2.3bn. Our continued focus on cost transformation and debt reduction helped us achieve these.

Finally, our customer service improved this year, but not by enough. Our Right First Time measure increased 1.5%, but did not achieve our target to reverse the 4% decline the year before. The widespread flooding across the UK affected our service and the strong demand for BT Sport placed a lot of pressure on our contact centre resources. Our processes have also not been good enough. We need to deliver a step-change and are making further investments to provide a superior service to all our customers.

Our financial performance for the year

Our results were in line with or ahead of the financial outlook that we announced at the start of the year. They show that we are making good progress towards our goal of sustainable, profitable revenue growth.

BT Global Services' investments in the high-growth regions of the world are delivering positive results. These continue to help offset revenue declines elsewhere within the division including in the UK public sector. BT Business reported an improved revenue trend supported by IT services and growth in BT Ireland. BT Consumer generated strong revenue growth driven primarily by higher broadband and TV revenue reflecting the benefit of BT Sport. BT Wholesale's revenue was impacted by regulation; as was Openreach's where it offset strong growth in fibre take-up.

All of our lines of business made good progress in transforming their costs. Across the group, we have focused on improving end-to-end processes which span our lines of business. Our cost transformation activities enabled us to absorb the investment we made in launching BT Sport and meant that adjusted EBITDA for the group was flat compared with the prior year.

We have continued to invest across our business, but our capital expenditure reduced as a result of efficiencies in the delivery of our capital programmes. This contributed to the growth in our cash flow. We again reduced our net debt, reflecting our prudent financial policy.

Read more about our customer service on page 16 and our KPIs on page

Read more about our financial performance on page

^a Financial outlook which was given at the start of the year.

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Financial highlights

- ^a Certain results for the years ending 31 March 2013 and 2012 have been restated. See note 1 to the consolidated financial statements on page 127 for further details.
- ^b Items presented as adjusted are stated before specific items. See page 128 for further details.
- ^c Before depreciation and amortisation.
- ^d See definition on page 185.

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How we performed against our strategic priorities

Driving broadband-based consumer services

Revenue in BT Consumer grew 4%, the most in over ten years. We achieved this through growing our broadband market share, selling more services and reducing the number of customers switching away from BT.

Customers continue to want faster broadband. We now have more than 2.1m customers on our fibre broadband packages. This year we added 571,000 broadband customers and 192,000 TV customers. We reduced our customer line loss by over 50%.

BT Sport is playing an important role in our strategy. It is a long-term commitment to the UK pay-TV market. It has enabled us to reach out to sport-centric TV households and we now have around 3m direct customers.

Being the Brand for

Business for UK SMEs

We want to be the first choice for SMEs for all their communications and IT services needs. BT Business has a leading position in fixed-voice, networking and broadband services.

We have invested in our skills and capabilities in the IT services market. We have combined our IT businesses into a single division to strengthen our product portfolio and sales channels, and to maximise synergies.

We have big ambitions in mobility. We are developing converged fixed-mobile offerings that build on our strengths in fixed services and will use our 4G spectrum. Take-up of fibre broadband is growing and we launched higher-speed versions in the year. In conferencing, our exclusive partnership with Dolby is helping us differentiate our voice services and grow our market share.

This year BT Business improved its revenue trend, increased its EBITDA for the second year running and grew its order intake by 3%.

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BT Global Services

a global leader

We serve the needs of more than 6,500 large corporate and public sector customers in more than 170 countries worldwide. We have consolidated our position as a global leader in the market for managed networked IT services.

BT Global Services delivers value to our customers by combining our products and services with industry-specific solutions and consulting expertise. We operate globally and deliver locally.

We continue to focus on customer service. We made some progress, but not as much as we wanted. By bringing together teams and clarifying roles we plan to improve our service at the same time as boosting efficiency.

BT Global Services is driving to be a more predictable business in terms of its financial performance. We have made progress on this. Our order intake grew 9% in the year with contracts signed across all our key geographies. We achieved double-digit revenue increases in the high-growth regions of the world. We continued to transform our cost base, which reduced by 4%. This contributed to a £177m increase in our operating cash flow.

The wholesaler of

choice

We want communications providers (CPs) to see us as their wholesaler of choice, giving them the benefit of our investments and economies of scale wherever we operate.

We are Europe's largest wholesale telecoms provider. We have expanded our product range with the launch of our Hosted Communications Services portfolio. This kind of innovation, together with better product reliability and customer service, took customer satisfaction to its highest level in recent years.

IP Exchange, our strategic IP voice product, has continued to grow rapidly. It carried over 14bn voice minutes globally, two thirds above last year.

However, BT Wholesale's trading environment was tougher this year as a result of some significant customer, competitor and regulatory decisions. Our total order intake was slightly lower than last year at £1.9bn and our revenue trend worsened over the year. But we improved our profit performance, with EBITDA down just 1%.

^a See chart on page 18.

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The best network provider

Openreach is becoming a fibre business. Our fibre broadband network is available to over 19m premises, up from 15m in March 2013. And we are playing our part in building Britain's connected future, helping businesses to grow and communities to prosper.

The number of premises taking fibre almost doubled in the year. There are now over 2.7m connections, 14% of those passed. We have started to roll out fibre in rural communities, supported by public funding from the Broadband Delivery UK (BDUK) programme. We hired around 2,000 people this year to deliver the new infrastructure, connect fibre customers and improve our service. But the extreme levels of rainfall led to higher than expected volumes of network faults, and increased the time to repair them. Our service in the year was not good enough. We are investing to improve the resilience of our network and to meet customers' changing expectations.

The number of physical lines increased by 83,000 in the year. The number of copper and fibre broadband users on our network rose 826,000. We also saw further growth in our business-grade Ethernet services, with the number of circuits growing 14%. Revenue in Openreach declined 1%, and EBITDA declined 2%, as the impact of regulation offset growth in fibre broadband and Ethernet revenue.

A responsible and sustainable business leader

Being a responsible and sustainable business leader remains at the heart of our strategy and underpins BT's purpose. It supports our goal to deliver sustainable, profitable revenue growth, while ensuring we maximise the contribution we make to society and the environment.

Our Better Future programme helps us achieve this through our people, products and operations. We demonstrate good business practice and maintain high ethical standards in our supply chain.

We have made good progress towards our ambitious 2020 goals in our three focus areas: Connected Society, Net Good and Improving Lives. We increased coverage of fibre broadband and provided free programmes to help people develop their digital skills. We reduced our own energy use and carbon emissions, while enabling our customers to reduce theirs. We helped charities raise millions for good causes with huge support from BT volunteers.

You can find out more about the Better Future 2020 goals, our methodologies and how our results are calculated at www.bt.com/betterfuture

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Purpose and strategy

This section is about our purpose and the strategy we are following to achieve it. We explain the strategic priorities we have been focusing on to deliver our strategy.

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This Strategic Report was approved by the Board on 7 May 2014.

By order of the Board

Dan Fitz

Group General Counsel & Company Secretary

7 May 2014

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14 The Strategic Report
 Purpose and strategy

Chief Executive's introduction

We've made strong progress this year. I'm excited about the future and how BT will be right at the heart of shaping it.

I consider it a great privilege to be writing to you for the first time as Chief Executive.

I'm incredibly proud to work for a communications company with a great sense of purpose and with many talented and dedicated people.

The world is being transformed by communications. They are changing how we work, how we bank, how we shop and how we think; bringing new ways of delivering healthcare and education; reshaping how governments operate; helping to create new businesses; and driving social mobility. BT is right at the heart of this. Our purpose is to use the power of communications to make a better world.

Businesses that flourish over the long term are ones that have a purpose that's beyond simply making money. By bringing together our networks our technology and the hard work and expertise of our people, BT is able to deliver value for our shareholders and customers and contribute to society.

When I joined BT ten years ago, what struck me most was the company's history of innovation and the fact that this was a business that consistently innovated and recreated itself – and that continues to be true today.

From that very first wireless telephone call, to our innovations in fibre optics that support global communications, we're now where we are today – with a heartland in the UK, the backbone of the country's communications infrastructure and with operations all over the world.

It's why we've invested and will continue to invest in:

the rollout of **fibre broadband** when others have not, because we believe it can transform lives and is a platform for growth for the whole of the UK. We have one of the fastest fibre rollouts in the world and our fibre network now passes around two thirds of UK premises;

BT TV and **BT Sport**, because the trend in the market is clear – our customers want packages of voice, broadband and TV. I'm delighted that in less than one year, we have around 3m direct BT Sport customers and our service is in around 5m homes;

mobility, because our customers want connectivity wherever they are;

the **UK business market** and helping **multinationals** to expand globally and regionally, because we're able to leverage our world-class capability at managing networks and services to enable businesses to grow; and

building and maintaining a high performing **healthy culture**, because this will create future innovation and opportunities.

All of this is aimed at creating a growing BT and delivering our goal of sustainable, profitable revenue growth for the business. And our investments are delivering for us. The cumulative effect is that we don't just help individuals and businesses to grow and prosper – we work as an engine of growth and prosperity for the economy as a whole.

The way we'll bring our purpose alive, and deliver our goal, is to execute on every aspect of our strategy. If we do this, we'll continue to deliver for our shareholders, customers and for society.

We've made strong progress over the last year beating market expectations and growing revenue, earnings per share and normalised free cash flow. Our results provide a strong platform to build on in the years ahead as we continue to focus on improving the service we provide to our customers and delivering on our investments.

I'm really excited about the future and how BT will be right at the heart of shaping it. I'm confident that with the support of our people, we'll continue to use the power of communications to make a better world.

Gavin Patterson

Chief Executive

7 May 2014

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Our purpose

Our purpose is to use the power of communications to make a better world. By bringing together the best networks and technology with the expertise of our people, we make connections and create new possibilities.

Who we are

The world is being transformed by communications. BT is a communications company and our purpose is to use the power of communications to make a better world.

Our heartland is the UK where we are the fabric of the national infrastructure. But we are not just a UK company we have operations that stretch around the globe. In the UK, we sell products and services to consumers and small and medium-sized enterprises (SMEs). Around the world, as well as in the UK, we provide managed networked IT services to large multinational corporations, domestic businesses and the public sector. We also sell wholesale telecoms services to CPs in the UK and internationally.

Our systems deliver the intelligence of the modern world. By bringing together our networks, our technology and the hard work and expertise of our people, we develop services that our customers value.

These days, life and work is built around connectivity. Through us, millions of individuals connect to friends and family, and have a wealth of information and entertainment at their fingertips.

We believe that people want to work with a company that supports their ability to grow and is a positive force in the communities where it operates. Whether it is by making connectivity accessible wherever it is needed, helping our customers to become more energy-efficient or looking for new ways to make healthcare or education more effective, we are committed to growing a successful business, by being valuable to our customers and society. And we are committed to delivering value to our shareholders.

Our strategy

Our strategy is based on three foundations. They build on one another and are supported by six strategic priorities.

Our strategy for the last four years has been about making BT a better business with a better future .

Improving our customer service, transforming our cost base and investing in the six strategic priorities shown below. These have been the foundations of our strategy. They build on one another. The better we serve our customers, the less time and money we need to spend putting things right. The more we save through transforming our costs, the more we can invest in giving customers what they need now and in the future.

We are now a better business than we were and our strategy is evolving. Our six strategic priorities that have served us well are also evolving. Being *a responsible and sustainable business leader* for example is now part of who we are and how we do things – not a standalone priority.

Looking ahead, our focus is shifting more towards our goal of delivering sustainable, profitable revenue growth. To achieve this we need to broaden and deepen our relationships with consumers, businesses and public sector clients, increasing our relevance to them as markets and technologies change.

The foundations of our strategy will remain largely the same – deliver superior customer service, transform our costs and invest for growth – but the activities will shift as we enter the next phase of our journey.

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	Purpose and strategy

Customer service delivery

We have improved our customer service this year, but not by as much as we had wanted to. Right First Time (RFT) is our key metric for customer service (see page 61). In practice, RFT means understanding what our customers need, keeping our promises to them, keeping them informed, and acting quickly to fix things if they go wrong.

The RFT measure that we report for the year compares the average for the fourth quarter with that for the year before. Our aim for the year was to recover the 4% decline in RFT performance reported last year, but we only achieved a 1.5% improvement.

Our service in the year was impacted by the widespread storms and flooding across the UK which led to record levels of faults and meant that it took longer than normal to provide our services. In BT Global Services, RFT did not increase by as much as planned partly as a result of a backlog of orders. We also saw a significant rise in demand following the launch of BT Sport in August. This put pressure on our contact centre resources, which affected the levels of service some customers received.

Our strategy begins with customer service delivery, so we are disappointed with any setbacks in our quality of service, whatever the reason. We received some bad press on customer service during the year and we did let some customers down. We apologised where we had done so.

Customer expectations are changing. Households are increasingly reliant on their fixed-lines for access to the internet. Their expectations around service continuity and reliability have therefore risen. We have not always kept pace with this change. And our processes have also not been good enough. We are therefore making further investments in our systems, our people and technology and in the resilience of our networks.

We want to deliver a step-change to provide a superior service to all our customers. This year we have:

- recruited hundreds of extra people into our contact centres;
- invested in software to improve our performance in calling customers back;
- recruited around 1,400 additional engineers;
- equipped our engineers with new diagnostic tools to help them locate faults more quickly; and
- removed process failures allowing us to hit more of our customer appointments on time.

We also made progress on the focus areas we outlined in last year's Annual Report: early life failures; repeat visits; and how we respond to major service outages.

Going forward, we plan to:

invest proactively in our network to make it more resilient to bad weather and reduce the number of faults that occur;
improve our online capabilities so our customers and people can track what is happening more easily;
rebalance our resources so a higher proportion of customer calls are answered from UK call centres;
improve our ability to recover quickly for customers when things do go wrong; and