



Bringing it all together

# BT Group plc ANNUAL REPORT & FORM 20-F 2011



official communications  
services partner of the  
Olympic and Paralympic Games

# FINANCIAL SUMMARY

Group results			
	2011	2010	Change
<b>Revenue</b>			
adjusted <sup>a</sup>	<b>£20,076m</b>	£20,911m	↓4%
reported	<b>£20,076m</b>	£20,859m	↓4%
<b>EBITDA<sup>b,c</sup></b>			
adjusted <sup>a</sup>	<b>£5,886m</b>	£5,639m	↑4%
reported	<b>£5,557m</b>	£5,162m	↑8%
<b>Profit before taxation</b>			
adjusted <sup>a</sup>	<b>£2,083m</b>	£1,735m	↑20%
reported	<b>£1,717m</b>	£1,007m	↑71%
<b>Earnings per share</b>			
adjusted <sup>a</sup>	<b>21.0p</b>	17.3p	↑21%
reported	<b>19.4p</b>	13.3p	↑46%
<b>Proposed full year dividend</b>			
	<b>7.4p</b>	6.9p	↑7%
<b>Free cash flow<sup>c,e</sup></b>			
adjusted <sup>a</sup>	<b>£2,223m</b>	£2,106m	↑£117m
reported	<b>£2,011m</b>	£1,933m	↑£78m
<b>Net debt<sup>c</sup></b>			
	<b>£8,816m</b>	£9,283m	↓£467m

## How we performed in 2011

	Outlook May 2010	Result	
Revenue	c.£20bn	£20.1bn	✓
Operating cost <sup>d</sup> savings	c.£900m	£1.1bn	✓
Adjusted EBITDA <sup>a,c</sup>	in line with 2010 <sup>f</sup>	£5.9bn	✓
Adjusted free cash flow <sup>c,e</sup>	c.£1.8bn <sup>f</sup>	£2.2bn	✓
Net debt <sup>c</sup>	<£9bn	£8.8bn	✓

## Outlook

We expect

- Underlying revenue<sup>g</sup> excluding transit to be in the range of down 2% to flat in 2012 and to grow by up to 2% in 2013
- Adjusted EBITDA to grow in 2012 and to be above £6.0bn in 2013
- Adjusted free cash flow to be above the 2011 level in both 2012 and 2013

<sup>a</sup> Items presented as adjusted are stated before specific items. See page 56 for further details.

<sup>b</sup> EBITDA: Earnings before interest, taxation, depreciation and amortisation.

<sup>c</sup> Adjusted and reported EBITDA, adjusted and reported free cash flow and net debt are non-GAAP measures provided in addition to the disclosure requirements of IFRS. See page 56 for further details.

<sup>d</sup> Operating costs before specific items, depreciation and amortisation. See page 48 for further details.

<sup>e</sup> Before pension deficit payments.

<sup>f</sup> Adjusted EBITDA and adjusted free cash flow outlook updated in November 2010 to be around £5.8bn and £2bn, respectively.

<sup>g</sup> Underlying revenue excludes the impact of foreign exchange movements, acquisitions and disposals and specific items.

# CHAIRMAN'S MESSAGE



**Sir Michael Rake**  
Chairman

Last year we set out our plans for returning BT to growth in 2013. This year has been one of progress against these plans, but it has not been without challenges. Financially, however, we have delivered or exceeded our promises, improving both profitability and cash generation.

## Dividends

As we stated in 2010, the Board is committed to progressive dividends over the period to 2013, while balancing the need to invest in the business, reduce our debt and support the pension fund. Taking these considerations into account, the Board is proposing a final dividend of 5.0p, giving a total dividend for the year of 7.4p, up 7% over last year.

## BT's commitment to the UK

Broadband is a critical service for people and businesses in the UK. The Government aspires to seeing the UK become the best European country for broadband by 2015. BT is doing a great deal to make sure this aspiration becomes a reality. We start from a high base, with around 99% of UK premises already enjoying access to copper broadband, the best availability of all of the G8 countries. This year we extended our ADSL2+ copper broadband service, offering speeds of up to 20Mbps, to over 65% of UK premises.

We are also investing £2.5bn in our super-fast fibre-based broadband network. It already makes significantly enhanced speeds available to more than 4m premises, and we intend to extend this to two thirds of UK premises by the end of 2015. We aim to go further and bring fibre to homes and businesses in the 'final third' of the UK, provided that investment and regulatory conditions remain favourable and that we are able to use funds made available by Government to support roll-out to rural areas. We are delighted to have taken part in winning tenders which are seeing fibre extended throughout Northern Ireland and Cornwall.

BT's networks are open to communications providers on wholesale terms. We continue to push for regulatory reform, so that, for example, we can purchase more TV and movie content at fair prices, just as pay TV providers can access our network at regulated prices.

Our investment represents just one aspect of our commitment to the UK economy, which we also support through employment and paying and collecting taxes of around £3bn per year.

## BT's global presence

Across the world BT is investing to deliver excellent service to customers. We will continue to focus our investment next year on the Asia Pacific region, where many of our largest customers are looking to expand.

Internationally, we want regulation to level the playing field so that we can compete efficiently for the benefit of customers. We work for open and fair wholesale access to fixed and mobile telecoms networks to drive competition. We have seen some progress. In the US, the Federal Communications Commission has launched an investigation on access. In the EU, measures have been adopted that will offer greater regulatory consistency for fibre networks and internet policy. I was

pleased that the EU and US Government recently agreed a series of pro-competitive regulatory principles to advocate globally.

## BT's contribution to society

We strongly believe that to be a better business our corporate and social responsibilities must remain at the heart of what we do. So we have added 'being a responsible and sustainable business leader' to our strategic priorities.

Through our formal volunteering programme BT people have given a lot of time to community initiatives over the past year, with over 49,000 days volunteered. We are also participating in the UK's Work Inspiration campaign, led by Business in the Community, to help bridge the gap between the classroom and employment.

We have a range of measures to limit BT's energy use and emissions. To help our customers reduce their impact on the environment we have launched a building energy management product in Spain, a smart grid offer in North America and a smart metering partnership in the UK.

We maintained gold sector status in the Dow Jones Sustainability Index and 'Platinum Plus' level in the Business in the Community Corporate Responsibility Index.

I am personally committed to our agenda and chair the Board Committee for Sustainable & Responsible Business.

## The Board and governance

I was delighted to welcome two outstanding non-executive directors to the Board this year. Nick Rose, joined us from Diageo, where he was previously finance director. He brings a wealth of experience in international operations. Jasmine Whitbread, chief executive of Save the Children International, also joined us. She has extensive experience of public companies and charitable organisations and a deep understanding of the importance of corporate responsibility in building a sustainable global business model.

There have been significant changes in the UK corporate governance arena this year. In response we have extended the remit of the Audit Committee to reflect an increased focus on risk; extended the remit of the Nominating Committee to include governance and compliance issues; and established five regional governance committees to assist the business in managing governance and risk internationally.

We welcome the new UK Corporate Governance Code. At the 2011 AGM, as well as Nick Rose and Jasmine Whitbread who will retire automatically and be proposed for election, all the other directors, with the exception of Clay Brendish, will be seeking re-election. Clay will be retiring as a non-executive director at the end of August after nine years as a member of the Board. Clay has been a great asset and we have particularly valued his IT industry experience. I would like to thank him for his contribution over so many years.

My thanks go to all the Board and the executive management for all their efforts during the year.

## Our future

I am convinced that the focus and determination of the Board, management and our people will enable us to deliver our plans to make BT a better business with a better future.

**Sir Michael Rake**  
Chairman

11 May 2011

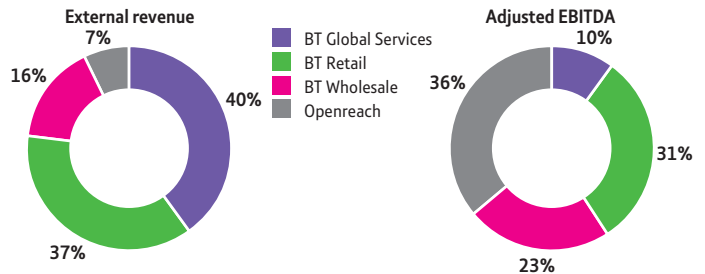
# OUR BUSINESS

## Our main activities

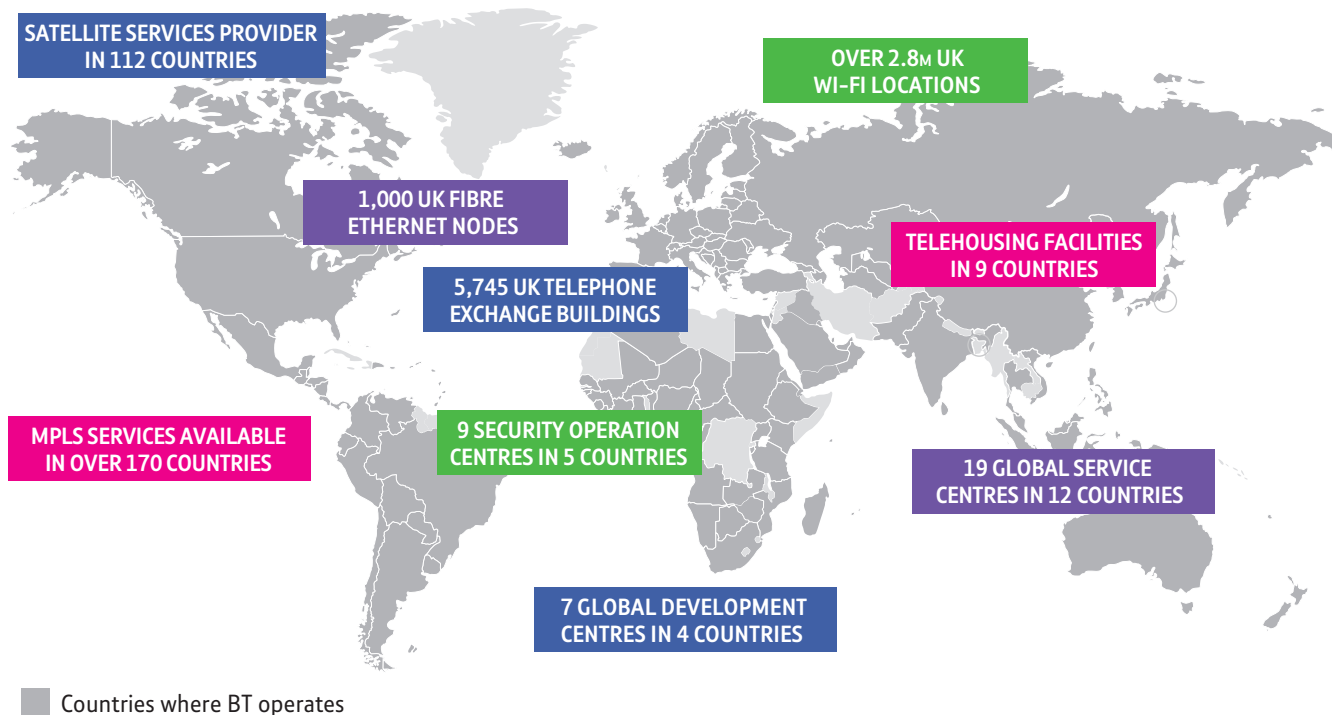
BT is one of the world's leading communications services companies, serving the needs of customers in the UK and in more than 170 countries worldwide. Our main activities are the provision of fixed telephony lines and calls, broadband, mobile and TV products and services as well as managed networked IT services.

In the UK we are a leading communications services provider, selling products and services to consumers, small and medium-sized enterprises and the public sector. We also sell wholesale products and services to communications providers in the UK and around the world. Globally, we supply managed networked IT services to multinational corporations, domestic businesses and national and local government organisations.

2011 external revenue and adjusted EBITDA by line of business



## Where we operate



## Sustainability

We aim to carry out our business in a responsible and sustainable way. Increasingly, our customers, shareholders, suppliers and our people expect this from BT. The innovative solutions we develop will benefit both society and our long-term development.

> More on page 36



## Our business model

We believe that we have developed a sustainable business model capable of creating and delivering value for shareholders. We are confident that this model will allow BT to prosper in a changing world.

BT has four customer-facing lines of business: BT Global Services, BT Retail, BT Wholesale and Openreach. These are supported by two internal service units, BT Innovate & Design and BT Operate.

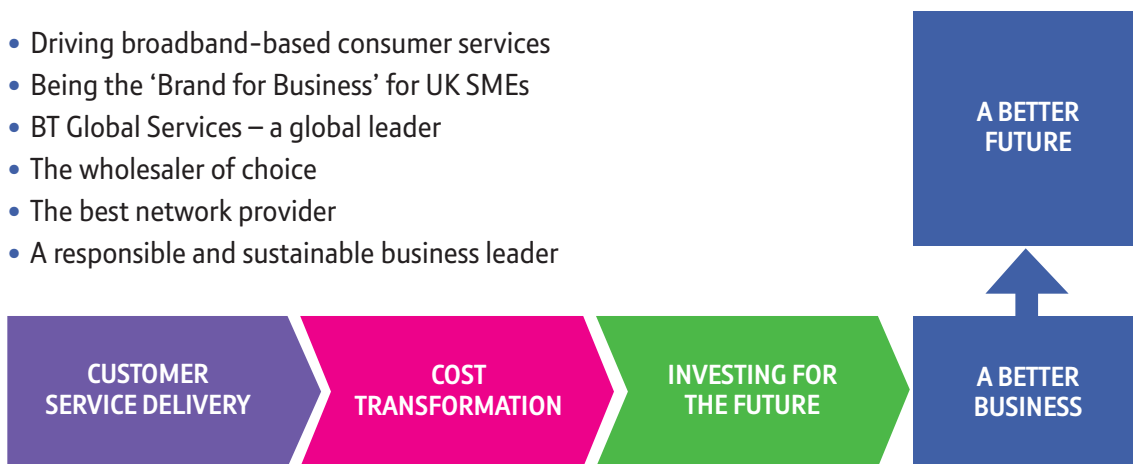
BT GROUP PLC				
	BT GLOBAL SERVICES	BT RETAIL	BT WHOLESALE	OPENREACH
WHAT WE DO	<p>BT Global Services is a managed networked IT services business, serving customers in more than 170 countries worldwide.</p> <p>&gt; More on page 23</p>	<p>BT Retail provides communications products and services to the consumer market, and provides IT and communications services to small and medium-sized enterprises.</p> <p>&gt; More on page 26</p>	<p>BT Wholesale provides products and services to over 1,000 communications providers in the UK.</p> <p>&gt; More on page 30</p>	<p>Openreach is responsible for the 'last mile' of the UK access network and for the roll-out of super-fast broadband.</p> <p>&gt; More on page 33</p>
CUSTOMERS	<p>Multinational corporations</p> <p>Domestic businesses</p> <p>National and local government organisations</p>	<p>UK consumers</p> <p>UK SMEs</p> <p>Republic of Ireland businesses, government and communications providers</p>	<p>UK communications providers</p> <p>Mobile operators</p> <p>Internet service providers</p> <p>Broadcasters</p>	<p>UK communications providers</p>
SALES CHANNELS	<p>Account management</p> <p>Online</p>	<p>Call centres</p> <p>Online</p> <p>Account management</p> <p>BT Local Businesses</p>	<p>Account management</p> <p>Online</p>	<p>Account management</p> <p>Online</p>
PRODUCTS AND SERVICES	<p>Networked IT services</p> <p>Ethernet</p> <p>Fixed calls and lines</p> <p>Audio &amp; videoconferencing</p> <p>Wi-fi &amp; mobility</p> <p>Professional services</p> <p>Wholesale network capacity</p>	<p>Fixed lines and calls</p> <p>Broadband</p> <p>TV services</p> <p>Wi-fi &amp; mobility</p> <p>IT services</p> <p>Audio &amp; videoconferencing</p>	<p>Wholesale network capacity</p> <p>Wholesale broadband</p> <p>Private circuits</p> <p>Ethernet</p> <p>Managed network services</p> <p>Content distribution services</p>	<p>Wholesale fixed lines</p> <p>Local Loop Unbundling</p> <p>Ethernet</p> <p>Physical infrastructure access</p>
BT INNOVATE & DESIGN AND BT OPERATE				
	<p>BT Innovate &amp; Design develops, designs and delivers the processes, networks and platforms on behalf of the customer-facing lines of business.</p> <p>&gt; More on page 35</p>		<p>BT Operate manages BT's IT and network infrastructure platforms.</p> <p>&gt; More on page 35</p>	

# OUR STRATEGY

## Our aim

Our aim is to drive shareholder value by making BT a better business with a better future.

- Driving broadband-based consumer services
- Being the 'Brand for Business' for UK SMEs
- BT Global Services – a global leader
- The wholesaler of choice
- The best network provider
- A responsible and sustainable business leader



Our strategy starts with customer service. Our goal is to deliver excellent customer service as it is vital for our customers and reduces our costs when we get things 'right first time'.

> [More on page 10](#)

Improved customer service and reduced cost of failure along with other efficiency measures drive lower costs across our business.

> [More on page 11](#)

Cost transformation frees up financial and other resources to allow us to invest in our networks, systems, and products and services to drive growth.

> [More on page 11](#)

## Key performance indicators

We measure our overall progress by three key performance indicators:

### Adjusted earnings per share

This is a measure of the overall profitability of our business.

> [More on page 49](#)

### Reported free cash flow

This is a measure of the cash generated by our business that is available to invest in the business, reduce net debt, support the pension fund and pay dividends.

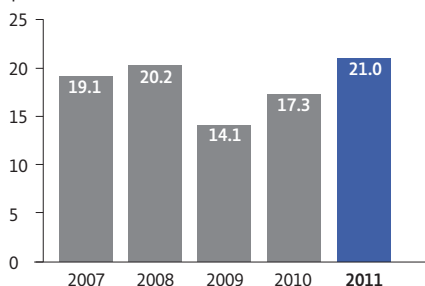
> [More on page 50](#)

### Customer service improvement

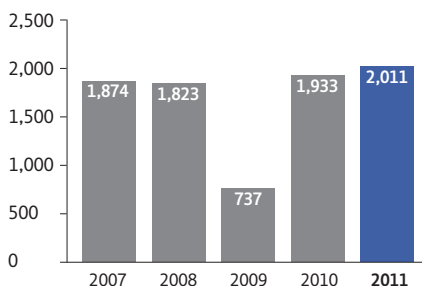
This is a measure of the level of improvement in how we are serving our customers.

> [More on page 10](#)

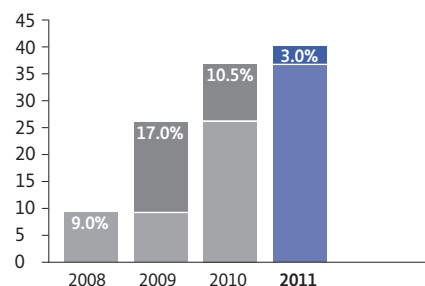
Adjusted earnings per share<sup>a</sup>  
pence



Reported free cash flow<sup>b</sup>  
£m



Customer service improvement<sup>c</sup>  
%



<sup>a</sup> Adjusted earnings per share is stated before specific items. See page 57 for further details.

<sup>b</sup> Reported free cash flow is a non-CAAP measure. See page 58 for further details.

<sup>c</sup> Cumulative improvement from 1 April 2007.

## Our strategic priorities

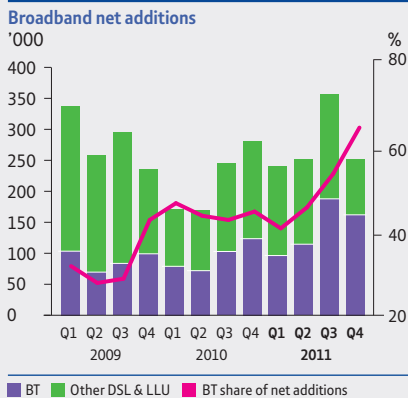
We will build a better future for BT through our six strategic priorities:

### Driving broadband-based consumer services

The UK broadband market is one of the most dynamic and competitive in the world and we are confident we can continue to win in this market.

- 5.7m retail broadband customers, up 11%
- 144,000 BT Infinity customers
- 64% share of retail net DSL and LLU additions in the fourth quarter, highest for eight years
- 575,000 BT Vision customers

> More on page 11

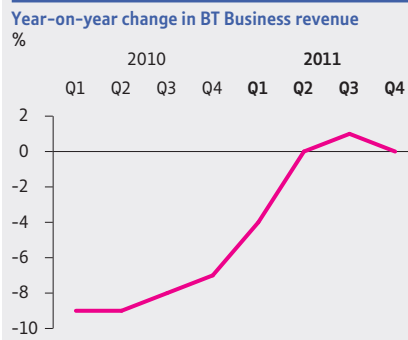


### Being the 'Brand for Business' for UK SMEs

We are the leading provider of fixed-line communications services for SMEs in the UK and we aim to be the 'Brand for Business' for UK SMEs.

- Improved trend in BT Business revenue
- IT services revenue up 17%
- Mobility revenue up 14%

> More on page 11

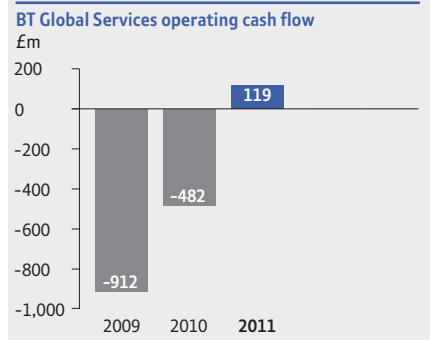


### BT Global Services – a global leader

We are a global leader in managed networked IT services and we are working to build BT Global Services into a stronger business.

- Operating cash flow positive a year ahead of plan
- 10% increase in order intake
- Investing to grow in the Asia Pacific region

> More on page 12



### The wholesaler of choice

We aim to be the wholesaler of choice in the UK and in the international wholesale telecoms services market.

- Managed network services revenue up 8%
- 40% of external revenue under long-term contracts
- Customers include the five main UK mobile operators and over 1,000 CP customers

> More on page 12



### The best network provider

We are the UK's largest provider of fixed telephony lines and aim to be the best network provider in the UK. We are also rolling out a super-fast broadband network.

- 7.6m external unbundled lines, up 15%
- 1,000 fibre Ethernet nodes, the largest Ethernet network in the UK
- Roll-out of super-fast fibre-based broadband on track to pass 5m UK premises by spring 2011

> More on page 12

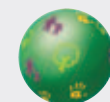


### A responsible and sustainable business leader

We believe that long-term profitable growth can be aided by supporting the communities in which we operate and through sustainable business practices.

- Absolute carbon footprint down 53% since 1997
- Money, time and in-kind contributions worth £27.6m invested
- 49,000 volunteer days

> More on page 13



FTSE4Good