

Growth through transformation



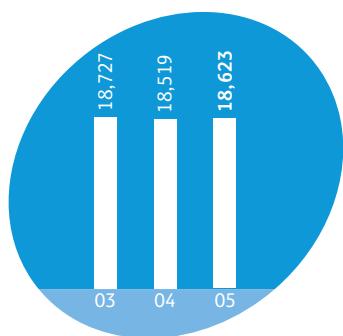
Annual Review and summary financial statement 2005

Growth through transformation

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

Highlights

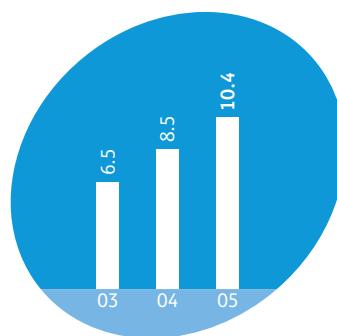
- Group turnover of £18.6 billion
- New wave turnover of £4.5 billion, up 32%
- Profit before taxation, goodwill amortisation and exceptional items of £2.1 billion, up 4%
- Earnings per share before goodwill amortisation and exceptional items of 18.1 pence, up 7%
- Net debt reduced from £8.4 billion to £7.8 billion
- Full year dividend of 10.4 pence, up 22%
- Broadband end users of 4.9 million, up 123%



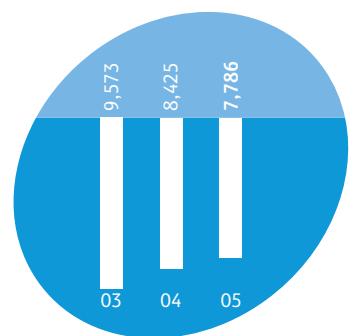
Group turnover (£m)
years ended 31 March



Earnings per share before
goodwill amortisation and
exceptional items¹ (pence)
years ended 31 March



Dividend per share (pence)
years ended 31 March



Net debt (£m)
as at 31 March

¹Restated following the adoption of UITF17 and UITF38 (see page 14)

- 1 Chairman's message
- 2 Chief Executive's statement
- 4 Growth through transformation
- 12 Report of operations and financial review
- 13 Auditors' statement
- 14 Summary financial statement

- 16 Summary report on directors' remuneration
- 18 Summary directors' report
- 18 Board of directors
- 19 Corporate governance
- 20 Information for shareholders

Chairman's message



Our results for the 2005 financial year were strong. New wave revenues grew by 32% to £4.5 billion, and now represent nearly a quarter of our business. Earnings per share have more than doubled over the past three years and net debt is more than £20 billion lower than in 2001.

Earnings per share in the 2005 financial year, before goodwill amortisation and exceptional items, grew by 7% to 18.1 pence. While continuing to invest for the future, we generated free cash flow of £2.3 billion, up 10%.

The news on dividends is positive. We are recommending a full-year dividend of 10.4 pence per share, a pay out ratio of 57% of earnings before goodwill amortisation and exceptional items, compared to 50% last year. We continue with our progressive dividend policy. The dividend for the 2006 financial year will be at least 60% of underlying earnings: subject to the group's overall financial position, we expect our pay out ratio to rise to around two-thirds of underlying earnings by the 2008 financial year.

We continued with our share buy back programme in the 2005 financial year. This is being funded from cash generated over and above that required for servicing our debt. We have reduced net debt to below £8 billion, a level with which we are comfortable.

Business progress

In support of our strategy for transformation and growth, your Board gave backing during the year for a targeted series of acquisitions that will help to build our capabilities as one of the world's foremost global networked IT services companies. These acquisitions offered value for money, had a compelling strategic fit and brought capabilities to strengthen BT globally. In addition, passing the five million mark for broadband connections in the UK in early April was a key moment in the history of your company.

Regulation

BT welcomed the Strategic Review of Telecommunications by Ofcom. During the year we have worked to help influence and shape their thinking and made a radical proposal for a new regulatory landscape in the UK. We continued to argue strongly that structural separation was not in shareholders' or customers' interests. We look forward to the published outcome. Our position remains that a strategic and flexible regulatory regime, together with rapid deregulation wherever possible, is vital to meeting customers' developing needs and creating the conditions in which we, and others, can continue to invest with confidence.

Board membership

There were a number of changes to your Board during the 2005 financial year. I would like to welcome Hanif Lalani as our new Group Finance Director. Ian Livingston, who had occupied the finance role with distinction for three years, was appointed Chief Executive BT Retail with effect from February 2005. It is a testament to the strength of BT's management team generally that we were able to appoint people from inside the company to such key roles. I would also like to thank Pierre Danon, who left the Board in February, for his significant contribution as Chief Executive of BT Retail for the last four years.

Wider responsibilities

It is increasingly important that companies such as BT continue to be good corporate citizens, living up to our responsibilities to the communities in which we operate and to the environment. I'm proud to be able to report that, for the fourth year in a row, BT was the highest placed telecommunications company in the Dow Jones Sustainability

Index. Our community programmes focus on those issues where communications really can make the difference; we have provided long-term support, for example, for a drama-based education programme to help develop young people's communications skills, and for the work of the children's charity ChildLine.

Like so many other companies and individuals, we wanted to respond to the devastating Asian tsunami in December 2004. We made a donation of £500,000 to the Disasters Emergency Committee (DEC) and we provided a live call centre for the unprecedented number of calls coming into the DEC. I'm particularly proud of the fact that so many of our employees were involved in fundraising activities and that 16 of our engineers travelled to the affected area to help re-establish communications.

Outlook

The process of transformation on which your company embarked in 2001 is accelerating. That process is increasingly reflected in your company's results. We are well set for further success in the years ahead.

I'd like to thank shareholders for the loyalty they've shown. Your continued confidence – coupled with the loyalty of our customers and suppliers and the imagination and commitment of our employees – is fundamental to our transformation for growth.

A handwritten signature in black ink that reads "Christopher Bland". The signature is fluid and cursive, with a prominent 'C' at the beginning.

Sir Christopher Bland

Chairman

18 May 2005

Chief Executive's statement



Today, BT is a very different company from the one that I joined three years ago. As our customers' needs have changed and continue to change, so we have found and continue to find new ways of meeting those needs, investing in innovative products and services which add value to our customers and to BT. That, after all, is what being a service company means.

In 2005, convergence is at the heart of BT's strategy.

By convergence, we mean the ability to bring together our capabilities and capacities in new ways to make life better, simpler and cheaper for our customers. For our business customers this means productivity improvements; for consumers it's about new, easier to use services. For customers of all kinds it means a more joined-up communications experience.

So, for example, we offer our major corporate customers around the world a unique marriage of our networking experience and infrastructure with IT services. These used to be separate offerings, often supplied by different companies, but we're bringing them together in one place. This means that however much their operations are dispersed around the globe, our customers can communicate and operate as one, anytime, anywhere, and at lower cost.

What we're doing in the mobile market is similarly about convergence – we aim to offer customers a converged combination of 'the best of fixed and the best of mobile'. Ultimately, our customers shouldn't have to worry about fixed or mobile when

what they really want is freedom and flexibility. This means that we have to find ways of helping them communicate, wherever they are, using whatever device they choose, at the right price.

And convergence is also what our twenty-first century network (21CN) programme is all about. What our customers need to know is that the 21CN can support a range of technologies and services that will enable them to do the things they want to do – faster, more seamlessly and more cost efficiently. And because this new network will support a wide range of innovative services which are currently run on separate networks, it will be much more cost efficient for BT.

Global networked IT services

We have raised our global profile through targeted acquisitions, including Infonet and Radianz, and by increasing our holding in Albacom to 100%.

We continued to play to our strengths in the networked IT services market. A few years ago, our position in this market was aspirational; today, we are competing with the best – and winning. The BT brand is now a powerful presence in the global networked IT services market. It's a brand

that stands for excellent networking skills and a genuine commitment to finding innovative ways of delivering what our customers want, end to end, leaving them free to do what they're good at: running their businesses.

Our ICT (information and communications technology) revenues were £3 billion in the year and the major contracts we've won indicate the confidence that our customers are prepared to put in us. We now have a track record of meeting the needs of public and private sector customers in, for example, the financial services and government arenas.

Our networked IT services order intake for the year was over £7 billion.

Broadband

Broadband has been an enormous success story, not just for BT but for the UK as a whole, which now has the highest levels of broadband access of any country in the G7 group of nations. We hit our five million broadband lines target a year early.

As broadband access becomes a fact of life for most people in the UK, our focus is shifting further towards the retail market where we have fantastic scope to drive further growth.

BT's key strategic imperatives

BT's transformation for growth is fuelled by our eight strategic imperatives, five of which are focused on generating new revenues in exciting new markets, defending revenues in traditional markets and operating with maximum efficiency.

Build on our networked IT services capability

Deliver on broadband

Create convergent mobility solutions

Defend our traditional business vigorously

Having got broadband, people now want to do more and more with it. We are increasing speeds by up to four times at no extra cost to our retail customers.

Convergent mobility services

The launch, in partnership with Vodafone, of our mobile virtual network operator in both the business and consumer markets is the key to building a mobility customer base and a path to mobile convergence. We now have over 372,000 contract connections.

Our strategy is to build a foundation for the delivery of high-value, fixed/mobile convergent solutions, for consumers and businesses. An early example of this will be Project Bluephone which will give customers the convenience of a mobile phone with the quality and cost advantage of fixed-line services.

Twenty-first century network

Our 21CN will help to make the UK one of the most advanced telecommunications countries in the world, transform our wholesale business and support the next generation of flexible, cost-efficient services. At the end of April 2005, we announced the eight preferred suppliers who will help us to implement the 21CN.

The capital expenditure involved is significant but the 21CN will lead to a radical simplification of our networks making it easier to offer compelling propositions to all our customers. The real challenge is to ensure that we invest in a way that meets customers' needs.

Traditional business

We are experiencing major changes in our traditional markets as a result of regulation, growing competition and significant shifts in our customers' buying patterns, as they discover the possibilities of technologies such as instant messaging and voice over IP.

Fixed-voice telephone calls may no longer be the only way to measure the success of a communications company, but they remain fundamental to our business. We may have lost some market share to competitors but we will continue to compete aggressively by offering new and better services, and improved customer value.

Cost efficiency

Taking a leadership position on costs is critical. Earnings per share is a key measure, which means that we have to continue to look at every cost line in the business and challenge it. We've made excellent progress on improving our cost efficiency in the past few years and in the 2005 financial year, our cost efficiency programmes achieved savings of around £400 million, and we aim to deliver at least £300 million to £400 million of savings in each of the next three years.

Relentless customer focus

Our 20 million customers are a wonderful asset and we have to continue to show how much we value every one of them.

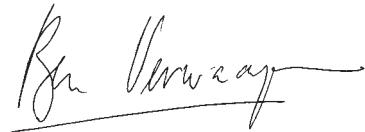
A key target for us was driving down customer dissatisfaction – we've reduced dissatisfaction levels by 23% on a compound annual basis over the past three years. There is still more to be done and we must continue this focus.

Our people

People bring strategies to life, people deliver world-class customer experiences, people make convergence happen.

Two years ago, we introduced our new brand values – trustworthy, helpful, inspiring, straightforward, heart. Since then, BT people have embraced these values, and turned the business inside out and upside down to deliver our strategy, finding innovative ways to reinvent BT in our traditional markets at the same time as establishing our BT brand in new markets, all the while driving down customer dissatisfaction.

I am constantly amazed by their commitment and by what they have achieved.



Ben Verwaayen

Chief Executive

18 May 2005

Drive for cost leadership

The other three are about keeping a rigorous focus on customers' needs and developing the technology that will meet those changing needs.

Keep a relentless focus on customer satisfaction

Transform our network for the twenty-first century

Motivate our people and live the BT values

Growth through transformation

For BT in the twenty-first century, transformation is part of the job description.

While we remain committed to our traditional portfolio of telecommunications services such as voice calls and private circuits, we are equally focused on generating new revenues in exciting and fast-growing new markets, particularly broadband, networked IT services and mobility. This transformation is driven by a single, overriding goal – sustainable, profitable growth.

Achieving this goal is in the best interests of our shareholders, our customers, our people and the wider communities in which we operate.



Broadband

It's easy to forget how fast the world can change. Blink and you might miss it. When, three years ago, we said that we would have five million broadband connections by the summer of 2006, no one thought we had a chance. But now that we've delivered those five million connections more than a year ahead of schedule, no one seems very surprised. After all, it's been clear for some time that we were going to make it.

Broadband is a huge success story for BT, which is transforming itself from a narrowband to a broadband company at the same time as the UK is fast becoming a broadband nation.

In the past few years, we've brought broadband to more than 4,400 exchanges, connected to almost 97% of the UK's homes and businesses. That figure will reach 99.6% this summer, the highest availability in any of the G7 group of countries.

A few years ago, only the experts had any clear idea what broadband was all about. Today, it's one of the first must-have products of the twenty-first century and one of the fastest growing consumer products of all time with a higher early take-up rate than TVs, video recorders or mobile phones.

And the momentum continues to build. It took us about a year to reach our first million broadband connections; the fifth million took just four months.

Since September 2004, we've been connecting a new customer to broadband every ten seconds, 24/7.

Pushing the boundaries

Now that broadband has become a genuinely mass market product, the nature of the broadband debate has changed.

The focus is moving away from availability and towards the ways in which broadband can transform our lives at work and at home.

For many people, broadband initially meant fast, always-on internet access and email – an end to the worldwide wait. But now, they're beginning to realise that so much more is possible – music and video downloads, video emails, education services and so on.

Within a couple of years, every child in the UK will have the chance to learn via

340,000 +
BT Business
Broadband
customers



"The focus is now moving away from availability and towards the ways in which higher-speed broadband services can transform our lives at work and home."

Alison Ritchie
Chief Broadband Officer

broadband and up to 18 million of us will be shopping online.

But as the demand for increasingly sophisticated broadband services grows, so must technology's ability to cope with it. That's why we're continuing to push the boundaries of broadband technology.

We transformed our retail broadband offering by moving most of our broadband customers to a new super-fast standard speed of up to 2Mbit/s at no extra cost, beginning February 2005. Customers now have access to speeds up to four times faster than before.

And we're not stopping there. We've been testing speeds of up to 8Mbit/s and plan to launch high-speed wholesale products later this year. And we've even been trialling something called ADSL2+ which may support speeds of more than 20Mbit/s.

Something for everyone

For customers at home we have a family of broadband packages designed to meet a wide range of needs.

Key packages include **BT Broadband**, which offers rapid, always-on internet access, and **BT Yahoo! Broadband** which gives users access to exciting content as well as a range of other benefits, including multiple email addresses, protection against junk email, parental controls to prevent children accessing unsuitable content and protection against computer viruses.

In July 2004, **BT Communicator with Yahoo! Messenger** became the latest addition to this family, enabling customers to manage all their home communications – phone calls, texts, emails and so on – on their PC.

And we'll also use broadband to make new services, such as video on demand and interactive TV, available to customers.

In the broadband economy

Broadband also has a key role to play in the UK economy, enhancing competitiveness, driving up productivity, promoting growth. Analysts estimate that the UK economy as a whole could be boosted to the tune of £7.5 billion a year by 2007 as a result of productivity gains made possible by broadband.

And what's true of national economies is true of local ones as well, many of which are keenly aware of the possibilities. In February 2005, for example, Northern Ireland became the first UK region outside London to have every one of its exchanges upgraded to broadband by BT. Just a month later – thanks to a partnership between BT and the regional development agency, One Northeast – all 181 exchanges in the region had been upgraded. And in April 2005, we won a contract with the Scottish Executive to bring broadband to the UK's remotest communities, by broadband-enabling 378 exchanges.

BT Business Broadband is the leading service provider for small and medium businesses in the UK, with over 340,000 customers as at 31 March 2005. At the end of the 2005 financial year, we were connecting around 250 business customers to **BT Business Broadband** every day. This is excellent business, particularly since more than half of them also took value-added services from us such as the **Internet Security Pack** and **Internet Business Pack**.

BT used to be essentially a narrowband company; today we are rapidly becoming a broadband company.

Broadband has the power to change the way businesses operate and the way they communicate with customers and employees. In November 2004, for example, we launched **BT Business Broadband Voice**, which enables smaller businesses to use broadband connections for voice calls and cut the costs associated with supporting multiple business lines.

99.6%
broadband
coverage in
the UK by
summer 2005



A broadband connection every 10 seconds, 24 hours a day, 7 days a week

5 million +
connections

The digital networked economy. Where business is done.

Networked IT services
As communications and information technology networks increasingly converge, corporations and other large organisations are looking for strategic partners who can develop and run their networks for them, leaving them to concentrate on their core business. In recent years, our networking skills have enabled us to establish BT as one of the world's foremost global networked IT services companies.

Where business is done

In the digital networked economy, our networking skills and experience are proving critical and the revenues we are generating in this market show how far we have come in a short time. In the 2005 financial year, our ICT (information and communications technology) revenues were £3.0 billion, compared with £2.5 billion in the 2004 financial year (see graph below).

And if anyone wanted proof that BT really is transforming itself for growth, they would only have to look at some of the recent contracts we've won.

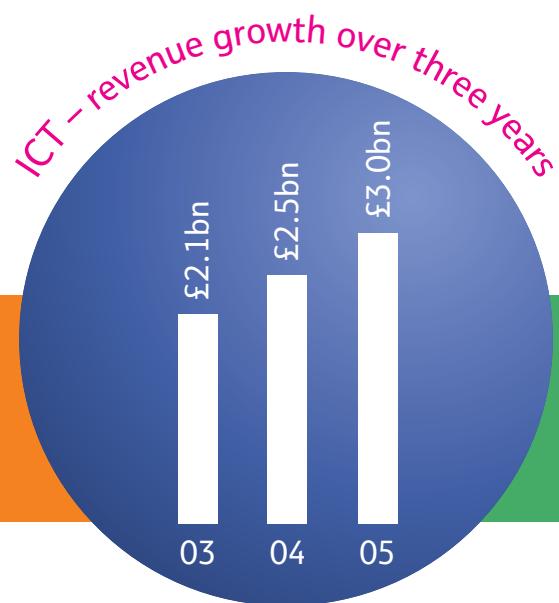
Major contracts

Our most high-profile success of the year came in March 2005 when it was announced that BT will become Reuters' supplier of network services around the world, under a contract expected to be worth up to £1.5 billion over its eight and a half-year life. And just a month earlier, we'd announced a new deal with Barclays to provide enhanced communications infrastructure services for their UK operations. Taking account of existing business, our relationship with Barclays



In 2004/05, we signed networked IT services contracts worth over £7 billion

Reuters



is now worth in excess of £500 million over the life of the contract, and confirms our growing strength and credibility as a supplier to companies in the financial services market.

Other big wins helped to confirm our European capabilities. For example, we signed an outsourcing contract with French company, THALES Group – the international electronics and systems group serving the defence, aeronautics, security and services market – to provide fixed-voice and data network services in 42 countries.

In the Asia Pacific region we were awarded a global network outsourcing contract by South Korea-based CyberLogitec, a subsidiary of Hanjin Shipping, to integrate the systems that it needs to run its operations in the US, Europe and locally. Worth £18 million, this is one of the largest contracts we have ever won in the region.

But it's not just major contracts that make for a healthy order book. We secured over 300 networked IT services contracts each worth between £1 million and £5 million during the 2005 financial year.

Building global presence

Our customers for networked IT services are increasingly operating globally and it's vital that we should be able to meet their requirements around the world – not just in Europe where we own operations in many countries, but elsewhere as well.

There are a number of ways to do this. Strategic partners can help us reach parts of the world where we don't operate and it's certainly possible to deliver a truly global service from any one location to any other, without owning everything in between.

But we also believe that it makes excellent commercial sense to acquire operations outside the UK, where these offer the right kind of strategic fit at the right price.

In February 2005, we completed the acquisition of Infonet, one of the world's leading providers of international managed voice and data network services, for £315 million, net of cash in the business. Infonet brings with it local operations and/or distributors in some 70 countries and remote network access in around 180 countries, significantly extending our global reach.

In the same month, we acquired the 74% that we didn't already own of Albacom, which provides data transmission, voice and internet services to more than 170,000 customers in the Italian business communications market.

And in April 2005, we acquired Radianz – the leading financial services extranet provider – from Reuters for £107 million – another significant step forward in our transformation into a global provider of networked IT services.



Infonet brings local operations and/or distributors in **70 countries** and remote network access in about **180 countries** around the world



Growth through transformation

Twenty-first century network

The twenty-first century network (21CN) is at the heart of our transformation strategy, underpinning broadband, networked IT services and convergent mobility services, flexibly and cost effectively. It will lead to a radical simplification of our networks, making it easier for us – and the other telecommunications operators who interconnect with our networks – to offer compelling converged propositions for all our customers.

The 21CN programme has three broad objectives:

- to enhance the service experience, flexibility and value we provide to all our customers;
- to accelerate the delivery of innovative new products and services to market; and
- to reduce costs radically.

We began technical trials during the 2005 financial year. For example, we conducted a trial in which we moved voice traffic from the traditional public voice network onto an internet protocol (IP) network. It may have gone largely unnoticed, but 7 January 2005 may turn out to be a key date in the history of telecommunications, because that was the day that saw the first end-to-end IP voice call.

In April 2005, we announced the eight preferred suppliers that we expect will help to build and implement the 21CN. The announcement was the culmination of two years of discussions with over 300 potential technology suppliers – one of the largest procurement programmes ever undertaken in the communications industry.

And in order to ensure that all other operators understand what the 21CN means for them and have a chance to input their ideas, we've launched a programme of industry consultation – Consult21.

Mobility

Mobility is about much more than mobile phones and text messages. In a convergent world, individuals and businesses want and need to communicate wherever they happen to be, using whatever devices – mobile and fixed-line phones, PCs, palmtops – they choose. True mobility is about connecting people to people, people to systems, businesses to businesses and machines to machines, any time, any place, any device.



The right stuff

BT has the right brand, channels and network capabilities to really deliver in the fast-growing mobility market.

What we're aiming for is providing all our customers with a winning combination of the quality, reliability, cost advantages and capacity associated with fixed-line communications, AND the convenience, personalisation and independence associated with mobile communications. In other words, the best of both worlds.

During the 2005 financial year, in partnership with Vodafone, we launched **BT Mobile** as a mobile virtual network operator (MVNO) – a move that puts us well on the road to offering the world's first fully converged, fixed/mobile service. This really is a new way of doing a new kind of business.

And it can be a major growth area for us. In the 2005 financial year, revenue growth in the mobility market was 107%.

And we'll shortly be launching Project Bluephone – a converged mobile service, enabling customers to use a single device that can switch seamlessly between fixed and mobile networks.

Mobility for businesses

We launched **BT Mobile** as an MVNO in the business market in November 2004, offering a wide range of flexible mobile services including mobile conferencing facilities.

We're also a leading UK provider of wireless broadband (Wi-Fi).

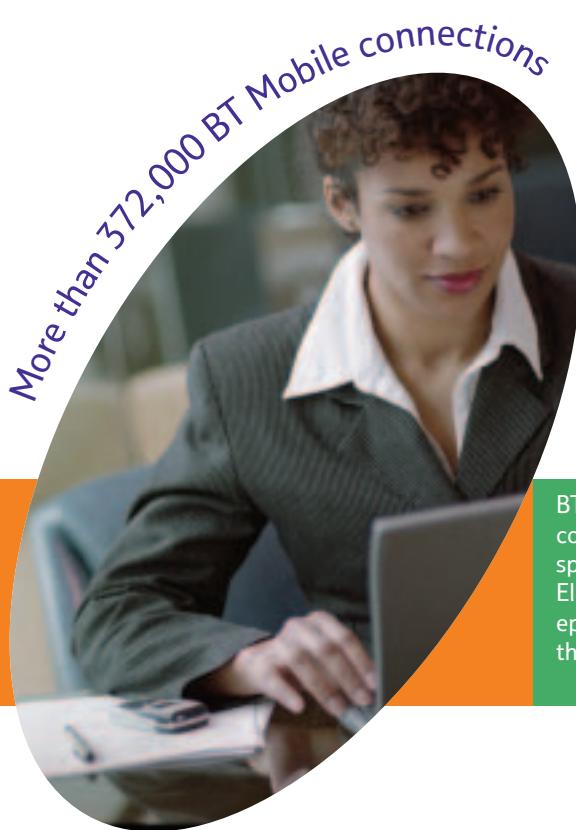
BT Openzone, our public Wi-Fi service, gives users a high-speed wireless broadband connection at thousands of 'hotspots' from which they can access the internet, send and receive emails with attachments and connect to a corporate network. As at 31 March 2005, our customers had access to more than 7,500 hotspots throughout the UK and more than 20,000 around the world.

We are convinced that a partnership strategy is essential for success in this market and we are working hard through the Fixed Mobile Convergence Alliance, which is developing open industry standards, and through the Wireless Broadband Alliance, which is driving the roaming arrangements that will help to make global mobility a reality.

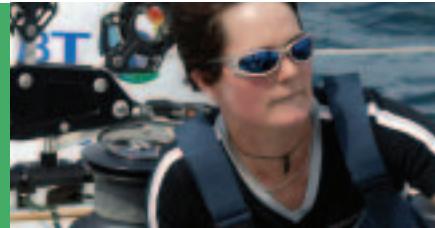
True mobility is about connecting people to people, people to systems, businesses to businesses and machines to machines, any time, any place, any device.

Mobility for consumers

In January 2005, we launched the **BT Mobile** MVNO in the consumer market, with a package aimed at families, offering a range of benefits including up to five additional handsets, free short calls to a designated home number and a single consolidated mobile bill.



BT was the official communications sponsor for Dame Ellen MacArthur's epic non-stop round the world victory



**Traditional business
Transformation may be a
way of life, but that doesn't
mean everything has to
change. We will continue
to provide all our customers
in our traditional markets
with an excellent customer
experience. Our values
– trustworthy, helpful,
inspiring, straightforward,
heart – continue to define
the way we do business
around here. Our people
continue to live these
values. And being a good
corporate citizen is as
important now as it's
ever been.**

Keep a relentless focus on improving customer satisfaction

Reducing customer dissatisfaction is a key objective for us. In the 2005 financial year, for the third year in a row, all lines of business reduced customer dissatisfaction levels. In total, we have achieved a group-wide reduction of 23% on a compound annual basis over the past three years.

Transforming the traditional

Of course, transformation and tradition are not mutually exclusive and there's nothing to say we shouldn't find new ways to do the things we've always done.

In July 2004, for example, we abolished the standard rate for telephone calls for all our residential customers and switched them to **BT Together Option 1**, offering them better value for money and making it easier for them to compare our prices with those of our competitors. We also introduced **Call Mobile**, a discount package offering customers savings of up to 40% on all fixed-to-mobile calls.

For business customers, we cut the cost of fixed-to-mobile calls by between 25% and 30% and offered **BT Business Plan** customers the option of a 30 pence cap on all such calls lasting less than an hour. As at 31 March 2005, **BT Business Plan** had over 440,000 locations – up 67% on the 2004 financial year.

Customer protection remains vitally important to us, which is why we've been helping to combat the menace of rogue internet diallers. **BT Modem Protection**, for example, is a free service designed to prevent a customer's computer dialling high-cost, premium rate or international numbers. At the end of March 2005, around one million customers had signed up for one or more of our barring options.

Drive for cost leadership

We remain focused on financial discipline and our cost efficiency programmes achieved savings of around £400 million in the 2005 financial year. This has enabled us to invest in growing our new wave activities. We aim to deliver at least £300 million to £400 million of savings in each of the next three years.

We can't starve ourselves to success, but reducing the costs of failure, complexity and duplication and generally working smarter increases the scope we have to invest for growth. And technology really can contribute to the cause. At the end of the financial year, for example, we had a total of 6.2 million online relationships with customers through our website (bt.com) and almost two million customers receiving e-bills.

Continuing to provide all our customers in our traditional markets with...



We have reduced
customer dissatisfaction
by 23% on a compound
annual basis over the past
three years



Our wider responsibilities

We are privileged to play a role in the wider communities of which we are a part and we recognise that an innovative approach to managing social, ethical and environmental issues is good business in every sense.

Increasingly, we have to demonstrate social and environmental responsibility when bidding for new business – in the 2005 financial year, bids to the value of £2.2 billion required us to demonstrate expertise in managing these issues.

We commit a minimum of 0.5% of our UK pre-tax profits directly to activities in support of society – we provided over £9 million in the 2005 financial year. In addition, BT operations provided a further £12 million in funding and support in kind.

The focus of our community programmes is on the big issues where better communications can make a real difference. That's why we've been sponsoring a drama-based education programme – to date, more than two million children have had the chance to enhance their communications skills – and why we're supporting children's charity ChildLine in its drive to ensure that every child's call for help is answered.

And we're committed to minimising any adverse impact on the environment. During the year, we signed the world's largest green energy contract, which means that almost all our future UK electricity needs will be met from environmentally-friendly sources, including wind generation, solar, wave and hydroelectric schemes.

This is expected to reduce our carbon dioxide (CO₂) emissions by around 325,000 tonnes a year.

We played a role in the response to the Asian tsunami of 26 December 2004. We set up a live call centre to handle the response to the Disasters Emergency Committee's (DEC) appeal and ran the online donation facility.

Individual employees were also involved in fundraising and 16 BT engineers travelled to the affected area to help re-establish the telecommunications infrastructure. We also made an immediate donation of £500,000.

Digital inclusion is a key public policy issue and we are working with the UK Government and the voluntary sector to find effective ways of using communications technology to tackle social exclusion. We are, for example, actively involved in the EverybodyOnline programme – established in partnership with charity campaign group Citizens Online – which aims to increase skills and access to communications technology in deprived communities.

Our Age and Disability Action team promotes equal access to a wide range of products and services, including large-button phones, cordless and hands-free options and a spoken text service.



almost
2 million
customers
now use
e-billing

...an excellent customer experience

Highest ranked
telecommunications company
in the Dow Jones Sustainability
Index for the fourth
year in a row



Report of operations and financial review

Operating performance

The financial results for the 2005 financial year reflect the continuing strong growth in new wave services as we deliver value from transforming the business. Our global networked IT services business is growing strongly and our global capabilities have been strengthened by the successful completion of the acquisitions of Albacom and Infonet. Subsequent to the year end we also completed the acquisition of Radianz.

Profit and loss account

Group turnover from new wave businesses showed strong growth of 32% to £4.5 billion in the year driven by growth in global networked IT services, broadband and mobility. Turnover from our traditional business declined by 7% to £14.0 billion, being impacted by regulatory intervention, competition and technological changes as we migrate customers to new wave services. Regulatory reductions in mobile termination rates are passed on to BT customers resulting in lower charges but are profit neutral. Group turnover of £18.6 billion increased by 2% (excluding the impact of acquisitions and regulatory reductions to mobile termination rates). Group operating profit before goodwill amortisation and exceptional items decreased by 1% to £2.9 billion. This mainly reflects the cost of supporting networked IT services contracts and investment in new wave activities. Net interest payable before exceptional items was £0.8 billion for the year, an improvement of £0.1 billion, reflecting the reduction in net debt. Earnings per share before goodwill amortisation and exceptional items were 18.1 pence, an increase of 7%.

Lines of business

The following table sets out the group turnover and group operating profit (loss) for each of our lines of business.

| Years ended 31 March | Group turnover | | Group operating profit (loss) ¹ | |
|----------------------|----------------|------------|--|-------------------------|
| | 2005 £m | 2004 £m | 2005 £m | 2004 ² £m |
| BT Retail | 12,562 | 12,940 | 1,120 | 1,232 |
| BT Wholesale | 8,979 | 8,883 | 1,940 | 1,883 |
| BT Global Services | 6,381 | 5,782 | 7 | (105) |
| Other | 25 | 35 | (203) | (121) |
| Intra-group | (9,324) | (9,121) | — | — |
| Totals | 18,623 | 18,519 | 2,864 | 2,889 |

¹ Before goodwill amortisation and exceptional items

² Restated following the adoption of UITF17 and UITF38 (see note (c) on page 14)

BT Retail

BT Retail is the UK's largest communications service provider, by market share, to the residential and business markets, supplying over 20 million customers with a wide range

of communications products and services, including voice, data, internet and multimedia services, and offering a comprehensive range of managed and packaged communications solutions.

On 1 July 2004, we abolished the standard rate for residential customers and switched all existing standard rate customers to BT Together Option 1, offering them better value for money and making it easier for them to compare BT's prices with those of our competitors. We also introduced a number of enhancements to our BT Business Plan, which had over 440,000 locations at the end of the 2005 financial year.

In the 2005 financial year, we launched BT Mobile as an MVNO (mobile virtual network operator) in the business and consumer markets. This is a major step towards building a mobility customer base and developing and delivering one converged customer experience.

BT is the UK's leading service provider of broadband with 1.75 million consumer and business broadband connections. We transformed our retail broadband offering by transferring our broadband customers to a high speed (up to 2Mbit/s) connection, beginning February 2005.

BT Business Broadband remained the leading ISP (internet service provider) for SMEs (typically companies with up to 500 employees) with over 340,000 customers.

BT Wholesale

BT Wholesale provides network services and solutions to over 600 communications companies including fixed and mobile network operators, ISPs and service providers. Interconnecting with over 180 other operators, it also carries transit traffic between telecommunications operators. Its UK network consists of 684 local and 135 trunk processor units, 121 million kilometres of copper wire and over seven million kilometres of optical fibre. BT Wholesale has the most extensive IP backbone network in the UK.

In early April 2005, we provided our five millionth broadband connection, more than one year ahead of target. 4,419 exchanges had been upgraded for broadband at the end of the 2005 financial year, and almost 97% of the UK's homes and businesses were connected to a broadband-enabled exchange.

BT's 21CN programme is at the heart of our transformation strategy, underpinning broadband, networked IT services and convergent mobility services. During the 2005 financial year, we took steps toward the 21CN's three broad objectives: to enhance the service experience, flexibility and value we provide all our customers; to accelerate the delivery of innovative

new products and services; and to reduce costs radically.

Technical fibre and voice trials began in the 2005 financial year.

On 28 April 2005, we announced the preferred suppliers that we expect will help build and implement the 21CN.

BT Global Services

BT Global Services is BT's managed services and solutions provider. Its core target market is 10,000 multi-site organisations including major companies with significant global requirements and large organisations in target local markets. BT Global Services provides global reach and a complete range of networked IT services.

Our extensive communications network and strong strategic partnerships enable us to serve customers in the key commercial centres of Europe, North America and the Asia Pacific region.

The acquisition of Infonet – one of the world's leading providers of international managed voice and data network services – was a major step forward in addressing the global networked IT services needs of our core customers, significantly extending our global reach. We also acquired the 74% that we did not already own of Albacom, which provides data transmission, voice and internet services in the Italian business communications market. In April 2005, we also completed the acquisition of Radianz – the leading financial services extranet provider.

Our most high-profile success of the year in the global market was winning the contract to become Reuters' supplier of network services. The contract is expected to be worth up to £1.5 billion over its lifetime.

In April 2005, we won an extension to July 2012 of a contract to deliver essential telecommunications services to the Ministry of Defence and the UK's armed forces. The total value of the contract is more than £2.7 billion.

Research and development and IT support

Our IT division, BT Exact, offers the services of IT professionals with knowledge of leading-edge network design and IT systems and application development. In the 2005 financial year, we invested £257 million in research and development.

Balance sheet

The group balance sheet continued to strengthen during the year and provides confidence to our customers and suppliers. Net debt was reduced by a further £0.6 billion to £7.8 billion and is now £20 billion lower than in 2001. Fixed assets totalled £16.7 billion, of which £15.9 billion were tangible fixed assets,

principally the UK fixed network. The return on capital employed, before goodwill amortisation and exceptional items on the average capital employed, was 16%.

Cash flow

Cash inflow from operating activities was £5.9 billion. Capital expenditure of £3.1 billion increased by 14%, reflecting the rising investment in our network transformation. Free cash flow of £2.3 billion was generated, an increase of 10%.

Dividend

The Board recommends a final dividend of 6.5 pence per share to shareholders, amounting to £551 million, taking the full year dividend to 10.4 pence per share, an increase of 22% on the previous year. This year's dividend pay out ratio is 57% of earnings before goodwill amortisation and exceptional items compared to 50% last year.

We continue with our progressive dividend policy. The dividend for the 2006 financial year will be at least 60% of underlying earnings: subject to the group's overall financial position, we expect our pay out ratio to rise to around two-thirds of underlying earnings by the 2008 financial year.

Customer satisfaction

Driving up customer satisfaction is at the heart of our strategy. In the 2005 financial year, for the third year in a row, all lines of business reduced dissatisfaction levels. In the past three years, we have achieved a group wide reduction of 23% on a compound annual basis.

Our people

As at 31 March 2005, we employed 102,100 people throughout the world.

Our core people engagement initiative is the *my customer* programme which aims to enable BT people to deliver an excellent customer experience through teamwork. More than 3,000 issues have now been resolved.

For the 2005 financial year, we allocated £11 million to provide free shares to our employees under the BT Employee Share Investment Plan (employees outside the UK receive a cash payment equivalent to the value of the shares). The amount allocated was linked to the achievement of corporate targets determined by the Board.

Corporate social responsibility

Our aim is to manage social, ethical and environmental issues in ways that grow shareholder value and help BT and our customers to be more sustainable. In the 2005 financial year, BT was ranked as the top telecommunications company in the Dow Jones Sustainability Index for the fourth year running. We commit a minimum of 0.5% of our UK pre-tax profits directly to activities which support society. Our contribution in the 2005 financial year was over £9 million. In addition, we made charitable donations of £2 million.

More details of our social and environmental performance are available at www.bt.com/betterworld

Statement of business practice

BT's policy is to achieve best practice in our standards of business integrity in all our operations, in line with our published statement of business practice – *The Way We Work*, which is available at www.btplc.com/society/values

Going concern

The company's financial statements for the year ended 31 March 2005 have been prepared on a going concern basis as, after making appropriate enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future.

Adoption of International Financial Reporting Standards (IFRS)

BT continues to report under UK Generally Accepted Accounting Principles (UK GAAP) for the 2005 financial year, but, as required by EU regulations, will present financial information in accordance with IFRS for the 2006 financial year.

Whilst some of the changes required by IFRS will impact BT's reported profits and net assets, this has no impact on the cash flows generated by the business or the cash resources available for investment or distribution to shareholders. Furthermore, the adoption of IFRS does not affect BT's strategy or underlying business performance.

The main areas of change relate to pensions, share-based payments, intangible assets, leases and financial instruments. We estimate the unaudited pro forma impact of adopting IFRS on the 2005 financial year reported UK GAAP results will be negligible on the underlying profit before tax and underlying earnings per share. However, due to the inherent volatilities introduced by IFRS, no such statement can be made in respect of future years. This estimate excludes the fair value effects on financial instruments which we are not required to apply until 1 April 2005.

Auditors' statement

Auditors' statement to the members of BT Group plc

We have examined the summary financial statement as set out on pages 14 and 15, summary directors' report set out on pages 18 and 19 and the directors' remuneration disclosures set out on page 17.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the summarised annual report in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the BT Group annual review with the annual financial statements, the directors' report and the directors' remuneration report, and its compliance with the relevant requirements of Section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the summarised annual report and consider the

implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

This statement, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 251 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion

We conducted our work in accordance with Bulletin 1999/6, 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board for use in the United Kingdom.

Opinion

In our opinion the summary financial statement is consistent with the full annual financial statements, the directors' report and the directors' remuneration report of BT Group plc for the year ended 31 March 2005 and complies with the applicable requirements of Section 251 of the Companies Act 1985, and the regulations made thereunder.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London 18 May 2005

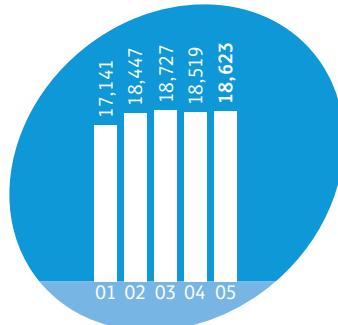
The auditors' report on the full annual accounts for the year ended 31 March 2005 is unqualified and does not contain any statement concerning accounting records or failure to obtain necessary information and explanations.

Summary financial statement

Summary group profit and loss account

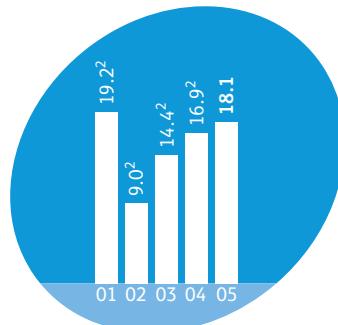
for the year ended 31 March 2005

Group turnover¹ (£m) years ended 31 March



¹Continuing activities

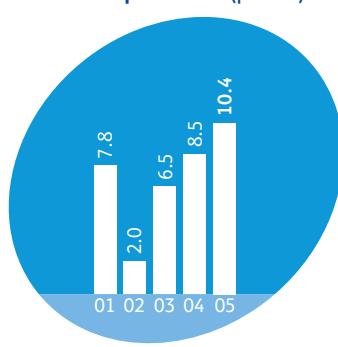
Earnings per share¹ (pence)



¹Continuing activities before goodwill amortisation and exceptional items

²Restated following the adoption of UITF17 and UITF38

Dividends per share (pence)



| | Before goodwill amortisation and exceptional items 2005 £m | Goodwill amortisation and exceptional items(a) 2005 £m | Total 2005 £m | Total(b) 2004(c) £m |
|--|---|---|---------------|---------------------|
| Group turnover | 18,623 | – | 18,623 | 18,519 |
| Group operating profit (loss) | 2,864 | (75) | 2,789 | 2,870 |
| Group's share of operating loss of associates and joint ventures | – | (25) | (25) | (34) |
| Total operating profit (loss) | 2,864 | (100) | 2,764 | 2,836 |
| Profit on sale of fixed asset investments and group undertakings | – | 358 | 358 | 36 |
| Profit on sale of property fixed assets | 22 | – | 22 | 14 |
| Net interest payable | (801) | – | (801) | (941) |
| Profit before taxation | 2,085 | 258 | 2,343 | 1,945 |
| Tax | (539) | 16 | (523) | (539) |
| Profit after taxation | 1,546 | 274 | 1,820 | 1,406 |
| Minority interests | 1 | – | 1 | 8 |
| Profit for the financial year | 1,547 | 274 | 1,821 | 1,414 |
| Dividends | | | (883) | (732) |
| Retained profit | | | 938 | 682 |

| | | |
|--|--------------|-------|
| Earnings per share | 21.4p | 16.4p |
| Dividends per share | 10.4p | 8.5p |
| Earnings per share before goodwill amortisation and exceptional items | 18.1p | 16.9p |

(a) Includes goodwill amortisation of £16 million, an exceptional property rationalisation charge of £59 million in relation to the group's provincial office portfolio, our share of a write down of Albacom SpA's assets, prior to Albacom becoming a subsidiary, of £25 million and a profit of £358 million mainly from the sale of the group's investments in Intelsat, Eutelsat and StarHub. This resulted in a net credit of £258 million to profit before taxation.

(b) Includes goodwill amortisation of £12 million, a net exceptional charge of £7 million reflecting the release of an exceptional bad debt provision of £23 million offset by rectification costs relating to a major incident, our share of a goodwill impairment charge made by Albacom of £26 million, a profit of £32 million on the sale of our interest in Inmarsat, and a one-off interest credit of £34 million offset by a charge for the premium on buying back bonds of £89 million. This resulted in a net charge of £68 million to profit before taxation.

(c) During the 2005 financial year the group adopted UITF Abstract 38 'Accounting for ESOP trusts' and the related amendments to UITF Abstract 17 (revised 2003) 'Employee Share Schemes'. An additional charge of £3 million for the 2004 financial year has been made to the group profit and loss account. The effect on the group balance sheet at 31 March 2004 has been to reduce fixed assets by £53 million, to reduce other creditors by £25 million and to reduce shareholders' funds by £28 million.

This summary financial statement was approved by the Board on 18 May 2005 and was signed on its behalf by:

Sir Christopher Bland
Chairman

Ben Verwaayen
Chief Executive

Hanif Lalani
Group Finance Director

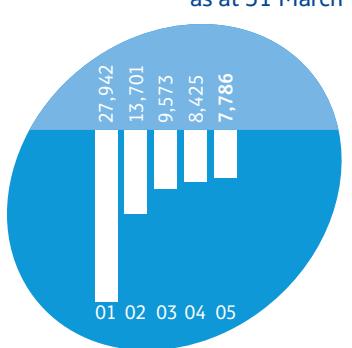
| | | | | | |
|---|--|--|--|---|---|
| Group turnover Turnover from products and services sold to customers by BT. | Net interest payable Interest paid on borrowings less interest received on short term investments. | Earnings per share Our profit for the financial year divided by the average number of shares in issue during the period. | Fixed assets This is mainly exchange and network equipment, property and similar items which we own and use to run our business, goodwill and investments. | Current assets Principally, amounts which we have billed our customers but not yet received and short term investments. | Creditors: amounts falling due within one year Principally, amounts due to suppliers and loans due for repayment within one year. |
|---|--|--|--|---|---|

Summary group balance sheet

at 31 March 2005

| | 2005 £m | 2004(c) £m | Net debt (£m) as at 31 March |
|--|---------------|---------------|---------------------------------|
| Fixed assets | 16,654 | 16,015 | |
| Current assets | 10,296 | 10,550 | |
| Creditors: amounts falling due within one year | (12,461) | (8,523) | |
| Net current (liabilities) assets | (2,165) | 2,027 | |
| Total assets less current liabilities | 14,489 | 18,042 | |
| Creditors: amounts falling due after one year | 8,091 | 12,426 | |
| Provisions for liabilities and charges | 2,497 | 2,504 | |
| Minority interests | 50 | 46 | |
| Capital and reserves (d) | 3,851 | 3,066 | |
| | 14,489 | 18,042 | |

(d) BT Group plc, the company, had capital and reserves at 31 March 2005 of £9.5 billion.



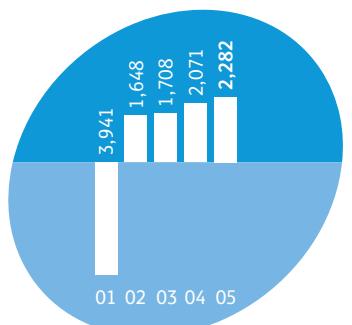
Summary group cash flow statement

for the year ended 31 March 2005

| | 2005 £m | 2004 £m | Free cash flow before acquisitions, disposals and dividends (£m) years ended 31 March |
|---|----------------|------------|--|
| Net cash inflow from operating activities (e) | 5,898 | 5,389 | |
| Dividends from associates and joint ventures | 2 | 3 | |
| Returns on investments and servicing of finance (f) | (878) | (527) | |
| Taxation paid | (332) | (317) | |
| Capital expenditure and financial investment | (2,408) | (2,477) | |
| Free cash flow | 2,282 | 2,071 | |
| Acquisitions and disposals | (418) | (60) | |
| Equity dividends paid | (784) | (645) | |
| Cash inflow before management of liquid resources and financing | 1,080 | 1,366 | |
| Management of liquid resources | 587 | 1,123 | |
| Financing | (1,485) | (2,445) | |
| Increase in cash in the year | 182 | 44 | |
| Decrease in net debt in the year resulting from cash flows | 887 | 1,222 | |

(e) Net of deficiency and special pension contributions of £6 million (2004 – £742 million).

(f) 2004 includes receipt of funds from restructuring the currency swap portfolio of £420 million.



Important note

This summary financial statement does not contain sufficient information to allow for as full an understanding of the results of the group and state of affairs of the company or the group and of their policies and arrangements concerning directors' remuneration as would be provided by the BT Group plc Annual Report and Form 20-F ('Annual Report'). Also, for the company's disclosure on any significant ways in which the company's corporate governance practices differ from those followed by US companies under NYSE listing standards, please see the corporate governance section of the Annual Report. Shareholders who would like more detailed information may obtain a copy of the full Annual Report for 2005 and/or future years, free of charge, by calling our Shareholder Helpline on Freephone 0808 100 4141 (+44 121 433 4404 from outside the UK) or can view it online at www.bt.com/annualreport

Forward-looking statements

Please see the cautionary statement regarding forward-looking statements in the 2005 Annual Report, available as set out in the paragraph above.

| Creditors: amounts falling due after one year | Provisions for liabilities and charges | Net cash inflow from operating activities | Capital expenditure and financial investment | Free cash flow | Financing |
|---|---|--|---|---|--|
| Money borrowed on a long term basis to fund our operations. | Amounts set aside for liabilities that are not yet certain. | Cash receipts less payments from the group's operating activities. | Cash receipts less payments from the purchase and sale of fixed assets. | Cash receipts less payments from the group's activities before corporate transactions, dividend payments and financing. | Cash receipts less payments arising from loan advances or repayments (not interest) and the issue of shares. |

Summary report on directors' remuneration

Introduction

This is a summary of the full Report on directors' remuneration in the Annual Report and Form 20-F 2005, a copy of which is available on request or at www.bt.com/annualreport. The full report will be voted on at the 2005 Annual General Meeting.

Remuneration Committee

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

Remuneration policy for executives

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

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

Main components of remuneration

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

Basic salary

This is reviewed annually. Basic salaries remained unchanged during the 2004 and 2005 financial years with the exception of increases agreed for Andy Green and Ian Livingston on 1 January 2005 to align their packages with their revised responsibilities in a highly competitive market.

Performance-related remuneration

- **Annual bonus** – the annual bonus plan is designed to reward the achievement of results against set objectives. Targets in respect of corporate performance, set at the beginning of the financial year 2004/05 for each objective, were based on earnings per share, free cash flow and customer satisfaction. One-third of any total

bonus is payable in the form of deferred shares under the Deferred Bonus Plan. The shares are held in trust for three years and act both as an incentive and a retention measure.

- **Long-term incentives** – the BT Equity Incentive Portfolio, comprising share options, incentive shares and retention shares, is designed to ensure that equity participation plays an important part in overall remuneration. In the financial year 2004/05, a combination of performance-linked share options and incentive shares replaced the grant of share options.
 - Awards vest and options become exercisable only if a predetermined performance target has been achieved.
 - The performance measure is total shareholder return (TSR) compared with a group of companies from the European Telecom Sector, replacing the FTSE 100 as the comparator group.
 - BT's TSR at the end of the three-year measurement period must be in the upper quartile for all of the awards to vest or options to become exercisable. At median, 30% of options would be exercisable and 25% of shares under award would vest. Below that point all of the share awards and options would lapse.

Retention shares are granted in exceptional circumstances to help recruit or retain individuals with critical skills. In the financial year 2004/05, six awards were made for recruitment purposes.

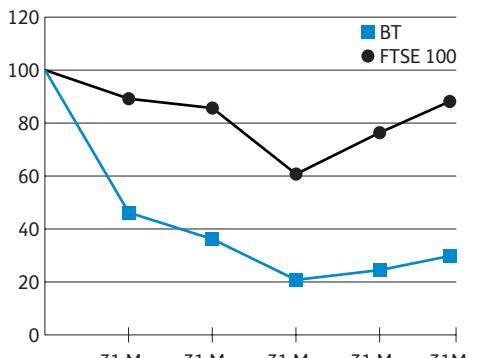
In the financial year 2005/06, the emphasis on some of the components making up remuneration packages will be modified, as the present long-term arrangements have not been acting as a sufficiently effective retention tool. As a result, no further options will be granted and this will be balanced by an increase in the maximum award of incentive shares from two-thirds to one times base salary. There will also be an increase in annual bonus potential, payable in deferred shares for the financial year 2005/06 onwards, which will vest three years after grant.

Pension arrangements

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

Executive directors and most other senior executives who joined the company prior to 1 April 2001 receive their pensions under defined benefit arrangements. Those with longer BT service are entitled

BT's total shareholder return (TSR) performance over the five financial years to 31 March 2005



1 April 2000 = 100
Source: Datastream

The graph shows our TSR performance (adjusted for the rights issue and demerger of our mobile business in the 2002 financial year) relative to the FTSE 100.

to pension benefits of two-thirds of final salary payable at normal retirement age. Those with shorter BT service are entitled to pension benefits of one-thirtieth of salary for each year of service.

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

Other benefits

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

Service agreements

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

See the tables opposite for details of directors' emoluments and interests in shares.

Directors' remuneration

The emoluments of the directors for the year ended 31 March 2005 and the benefits received under the long-term incentive plans were, in summary, as follows:

| | Total 2005 £'000 | Total 2004 £'000 |
|--|------------------------|------------------------|
| Salaries (includes amounts in note (2) below) | 3,237 | 3,150 |
| Performance-related and special bonus | 1,449 | 2,074 |
| Deferred bonus in shares | 600 | 1,037 |
| Other benefits | 419 | 467 |
| Payments to non-executive directors | 5,705 | 6,728 |
| Total emoluments | 391 | 337 |
| Gain on the exercise of share options | — | — |
| Value of shares vested under the executive share plans | 2,132 | 412 |

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

| | Basic salary and fees £'000 | Annual cash bonus £'000 | Benefits excluding pension £'000 | Sub-total £'000 | Other ⁽²⁾ £'000 | Total 2005 £'000 | Total 2004 £'000 |
|---------------------------------|-----------------------------------|----------------------------------|---|--------------------|-------------------------------|------------------------|------------------------|
| Sir Christopher Bland | 500 | — | 32 | 532 | — | 532 | 532 |
| B Verwaayen ⁽¹⁾ (2) | 700 | 448 | 237 | 1,385 | 127 | 1,512 | 1,968 |
| A Green ⁽¹⁾ | 444 | 204 | 36 | 684 | — | 684 | 791 |
| H Lalani ⁽¹⁾ | 64 | 136 | 7 | 207 | — | 207 | — |
| I Livingston ⁽¹⁾ (2) | 469 | 198 | 29 | 696 | 120 | 816 | 913 |
| Dr P Reynolds ⁽¹⁾ | 400 | 213 | 40 | 653 | — | 653 | 737 |
| Sir Anthony Greener | 115 | — | — | 115 | — | 115 | 96 |
| M van den Bergh | 55 | — | — | 55 | — | 55 | 44 |
| C Brendish | 50 | — | — | 50 | — | 50 | 39 |
| L R Hughes | 21 | — | — | 21 | — | 21 | 40 |
| Baroness Jay | 50 | — | — | 50 | — | 50 | 39 |
| J F Nelson | 50 | — | — | 50 | — | 50 | 39 |
| C G Symon | 50 | — | — | 50 | — | 50 | 40 |
| P Danon | 413 | 250 | 38 | 701 | — | 701 | 750 |
| | 3,381 | 1,449 | 419 | 5,249 | 247 | 5,496 | 6,028 |

Summary of directors' interests in shares and share plans as at 31 March 2005

| | Beneficial shareholdings ^(a) | Number of shares under option ^(b) | Incentive and retention shares ^(c) | Deferred bonus awards ^(d) |
|-----------------------|--|--|--|--|
| Sir Christopher Bland | 674,183 | 314,244 | 299,753 | — |
| B Verwaayen | 902,001 | 3,656,458 | 252,798 | 781,024 |
| A Green | 120,002 | 1,545,032 | 153,484 | 230,154 |
| H Lalani | 5,733 | 655,197 | 72,224 | 66,720 |
| I Livingston | 313,054 | 1,637,155 | 469,517 | 180,258 |
| Dr P Reynolds | 67,768 | 1,453,319 | 144,456 | 208,593 |
| Sir Anthony Greener | 60,007 | — | — | — |
| M van den Bergh | 7,540 | — | — | — |
| C Brendish | 23,920 | — | — | — |
| L R Hughes | 6,800 | — | — | — |
| Baroness Jay | 5,572 | — | — | — |
| J F Nelson | 50,000 | — | — | — |
| C G Symon | 10,069 | — | — | — |
| | 2,246,649 | 9,261,405 | 1,392,232 | 1,466,749 |

Executive directors are also able to participate in BT's all-employee share investment plan.

Pensions

Sir Christopher Bland is not a member of any of the company's pension schemes but the company matches his contributions, up to 10% of the earnings cap, to a personal pension plan. B Verwaayen and I Livingston are not members of any of the company's pension schemes but the company has agreed to pay an amount equal to 30% of salary towards pension provision. The aggregate value of contributions paid, or treated as paid, to defined contribution schemes in the 2005 financial year was £61,200. A Green, H Lalani and P Reynolds are members of the BT Pension Scheme. Additional days of pensionable service are being purchased for A Green, H Lalani and P Reynolds to bring their pensionable service at age 60 up to 40 years.

Notes

(1) In addition, deferred bonuses payable in shares in three years' time were awarded to B Verwaayen (£224,000), A Green (£102,000), H Lalani (£68,000), I Livingston (£99,000) and P Reynolds (£106,500).

(2) Part of the pension allowance of 30% of salary for B Verwaayen (20% of salary until 1 January 2005), and 30% of salary for I Livingston, was paid to them direct.

Notes

(a) Beneficial shareholdings include shares held in the director's own name or by close family members.

(b) Options granted under the Global Share Option Plan are normally exercisable in full between the third and tenth anniversaries of their date of grant only if a corporate performance target has been met. Option prices range between 187p and 318p.

(c) Retention shares are used as a recruitment and retention tool. They are held in trust for up to three years and are transferred to participants, if they are still employed by the company.

(d) Awards of shares are directly linked to the value of annual bonuses. The shares are held in trust for three years and are transferred to participants, if they are still employed by the company.

Summary directors' report

Principal activities

BT is one of the world's leading providers of communications solutions serving customers in Europe, the Americas and Asia Pacific. Its principal activities include networked IT services, local, national and international telecommunications services, and higher-value broadband and internet products and services. In the UK, we serve over 20 million business and residential customers with around 29 million exchange lines, as well as providing network services to other licensed operators. BT consists principally of three lines of business: BT Retail, BT Wholesale and BT Global Services. Details of our businesses and performance, including a number of post-balance sheet events, are given on pages 12 and 13 of this Annual Review.

Dividends

An interim dividend of 3.9 pence per share (2004: 3.2p) was paid on 7 February 2005. The directors recommend a final dividend of 6.5 pence per share (2004: 5.3p) to be paid on 5 September 2005 to shareholders on the register at the close of business on 5 August 2005. This makes a total dividend for the year of 10.4 pence per share (2004: 8.5p), an increase of 22%.

Directors

Details of the current members of the Board are shown below. All served throughout the financial year, with the exception of Hanif Lalani, who was appointed on 7 February 2005.

Pierre Danon served as a director until 28 February 2005.

Ben Verwaayen, Paul Reynolds, Carl Symon and Baroness Jay retire from the Board by rotation at the Annual General Meeting. Being eligible, they offer themselves for re-election. Hanif Lalani, having been appointed by the Board, will retire and will be proposed for election.

The contracts of Ben Verwaayen, Paul Reynolds and Hanif Lalani are terminable on 12 months' notice by the company and six months' notice by the director.

The letters of appointment of Carl Symon and Baroness Jay were extended for a second term of three years from 14 January 2005 and are terminable by either party on three months' notice.

Annual General Meeting

The Notice of the Annual General Meeting to be held at 10.30 am at the Harrogate International Centre, Harrogate on 13 July 2005 is contained in a circular, which is sent to shareholders with this Review.

Board of directors

Key to membership of Board committees
A Operating
B Audit
C Remuneration
D Nominating
E Community Support
F Pension Scheme Performance Review Group
* Chairs committee

Sir Christopher Bland Chairman
Appointed to the Board as Chairman on 1 May 2001. Chairman of the BBC from 1996 to 2001. Appointed a non-executive director of LWT Holdings in 1982 and chairman from 1983 to 1994, when LWT was acquired by the Granada Group. A former chairman of an NHS hospital trust. Aged 66.
Other appointments: senior adviser at Warburg Pincus and chairman of the Royal Shakespeare Company. D* E* F

Ben Verwaayen Chief Executive
A Dutch national, appointed to the Board on 14 January 2002 and Chief Executive on 1 February 2002. Formerly vice chairman of the management board of Lucent Technologies in the USA from October 1999. Aged 53.
Other appointments: non-executive director of UPS. A*

Dr Paul Reynolds Chief Executive, BT Wholesale
Appointed to the Board on 19 November 2001. Held a number of senior positions in BT, including Director of Multimedia and Managing Director of Networks and Information Services. Aged 48.
Other appointments: non-executive director of E-Access (a Japanese corporation). A

Andy Green Chief Executive, BT Global Services
Appointed to the Board on 19 November 2001. Held a number of senior positions in BT, including Chief Executive of BT Openworld and Group Director of Strategy and Development. Aged 49.
A

Ian Livingston Chief Executive, BT Retail
Appointed Chief Executive, BT Retail on 7 February 2005. A Chartered Accountant, he was Group Finance Director from April 2002. Formerly group finance director of Dixons Group and a director of Freeserve from its inception. Aged 40.
Other appointments: non-executive director of Hilton Group. A

Hanif Lalani Group Finance Director
Appointed to the Board as Group Finance Director on 7 February 2005. A Chartered Management Accountant, he was formerly Chief Financial Officer for BT Wholesale. Joined BT in 1983 and held a number of positions including Chief Executive BT Northern Ireland and Chairman OCEAN Communications (BT's subsidiary in the Republic of Ireland). Awarded the OBE in 2003 for services to business in Northern Ireland. Aged 43.
A F



Corporate governance

It is BT's policy to achieve for all our operations best practice in our standards of business integrity. The directors consider that BT has, throughout the year, complied with the provisions set out in section 1 of the 2003 Combined Code on Corporate Governance.

Board, directors and board committees

The Board is currently made up of the part-time Chairman, the Chief Executive, four other executive directors and seven independent non-executive directors. It is BT's policy that the Board will comprise a majority of independent non-executive directors. The roles of the Chairman and the Chief Executive are separate. The non-executive directors provide a strong, independent element on the Board. Sir Anthony Greener, the Deputy Chairman, is the senior independent director. Non-executive directors are appointed initially for three years at the end of which the appointment may be continued by mutual agreement. The Chairman and the non-executive directors meet regularly without the executive directors. The Chairman ensures the views of shareholders are known to and appropriately considered by the Board.

The Board's principal focus is the overall strategic direction, development and control of the group. A formal statement

of its role is available on the company's website. Historically, the Board has met every month, except August. For the 2006 financial year, and going forward, the Board will meet at least nine times each year.

During summer 2004 the Board carried out a further evaluation of its performance. A number of actions were agreed as a result. As part of this process, the Chairman has one-to-one sessions with the directors; the Deputy Chairman, Sir Anthony Greener, meets all directors individually to review the Chairman's performance.

To meet best corporate governance practice, Audit, Remuneration and Nominating Committees have long been an established part of BT's system of governance. Each committee has written terms of reference, which are available on the company's website. The Audit and Remuneration Committees are made up entirely of independent non-executive directors. The Board considers that several of the Audit Committee's members have recent and relevant financial experience. The Audit Committee reviews the company's published financial results, the Annual Report and Form 20-F and other published information for statutory and regulatory compliance and reports its views to the Board. It recommends the appointment, reappointment and remuneration of the

company's external auditors. The Board has policies determining what non-audit services the company's external auditors can provide in order to safeguard their independence and objectivity.

The Nominating Committee ensures an appropriate balance of experience and abilities on the Board, using this evaluation to review the size and composition of the Board and to recommend any proposed changes to the Board.

The Chief Executive, Ben Verwaayen, chairs the Operating Committee, which meets weekly.

Internal control and risk management

The Board is responsible for the group's systems of internal control and risk management and for reviewing the effectiveness of those systems. Such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives; any system can provide only reasonable and not absolute assurance against material misstatement or loss.

BT has processes for identifying, evaluating and managing the significant risks faced by the group. These processes have been in place for the whole of the 2005 financial year and have continued up to the date on which this document was approved.

Non-executive directors

Sir Anthony Greener Deputy Chairman

Appointed to the Board on 1 October 2000. He is Deputy Chairman and senior independent director. Chairman of the Audit and Remuneration Committees. Formerly chairman of Diageo. Aged 64.

Other appointments: chairman of the Qualifications and Curriculum Authority.

B* C* D

Louis R Hughes

A US national, appointed to the Board on 1 January 2000. Non-executive chairman of Maxager Technology Inc. (USA). Previously president and chief operating officer of Lockheed Martin Corporation and executive vice president of General Motors. Aged 56.

Other appointments: from 09/04 to 06/05 leading the US Government civil reconstruction effort in Afghanistan. Non-executive director of AB Electrolux (Sweden), Sulzer AG and ABB Ltd (both Switzerland).

B C

Maarten van den Bergh

A Dutch national, appointed to the Board on 1 September 2000. Retired in 2000 as president of the Royal Dutch Petroleum Company and vice chairman of its committee of managing directors. Aged 63.

Other appointments: chairman of Lloyds TSB Group; non-executive director of Royal Dutch Petroleum Company and British Airways and a member of the supervisory board of Akzo-Nobel.

B C D F*

John Nelson

A Chartered Accountant, appointed to the Board on 14 January 2002. Retired as chairman of Credit Suisse First Boston Europe (CSFB) on 31 January 2002. Prior to joining CSFB in January 1999, he was vice chairman of Lazard Brothers from 1990. Aged 57.

Other appointments: deputy chairman of Kingfisher and a non-executive director of Hammerson, of which he will become chairman in September 2005.

B D F

The Rt. Hon. Baroness Jay of Paddington PC

Appointed to the Board on 14 January 2002. Formerly Lord Privy Seal, Leader of the House of Lords and Minister for Women, and Minister of State at the Department of Health. Aged 65.

Other appointments: non-executive director of Independent News & Media and a member of its International Advisory Board; chairman of the Overseas Development Institute and member of the Committee on Standards in Public Life.

C E

Carl G Symon

A US national, appointed to the Board on 14 January 2002. Formerly chairman and chief executive officer of IBM UK. Aged 59.

Other appointments: non-executive director of Rolls-Royce and Rexam; chairman of a number of private companies.

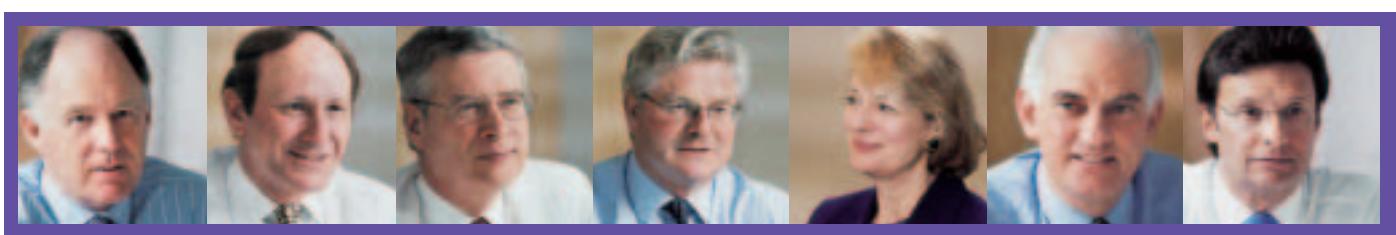
B C

Clayton Brendish

Appointed to the Board on 1 September 2002. Retired in 2001 as executive deputy chairman of CMG. Aged 58.

Other appointments: non-executive director and external chairman of Meteorological Office Board; non-executive chairman of Close Beacon Investment Fund and Echo Research Ltd; non-executive director of Elexon and Herald Investment Trust; trustee of Economist Newspapers and Foundation for Liver Research.

B E



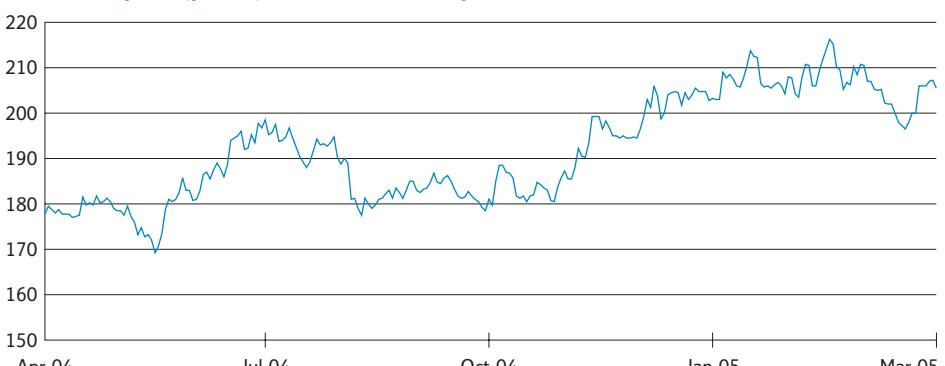
Information for shareholders

Share price

- Shareline – for the daily 9.00 am share price and recorded news about BT, call: Lo-call 0845 701 0707 (UK callers only). Calls charged as a local call from anywhere in the UK*.
- Share price line – for real-time buying and selling prices for BT shares, call: 0906 822 2334 (UK callers only). This service is provided by Teleshare, which is not part of BT. Calls are charged at 60p per minute (including VAT)*.

* Different rates may apply to calls from non-BT networks.

BT's share price (pence) over the financial year ended 31 March 2005



Dividends for the year ended 31 March 2005

- Interim dividend of 3.9 pence per share paid on 7 February 2005.
- Final dividend proposed of 6.5 pence per share payable on 5 September 2005.

Calendar of key dates

| | |
|--|-------------------|
| Financial year end | 31 March 2005 |
| Annual General Meeting | 13 July 2005 |
| Results announcements for the year ended 31 March 2006 | |
| First quarter | 28 July 2005 |
| Second quarter and half year | 10 November 2005* |
| Third quarter and nine months | February 2006* |
| Fourth quarter and full year | May 2006* |
| 2006 report and accounts published | June 2006* |

Dividends for the financial year ended 31 March 2005

| | |
|--|------------------|
| Interim | |
| 3.9 pence per share paid | 7 February 2005 |
| Final | |
| Record date | 5 August 2005 |
| 6.5 pence per share (proposed payable) | 5 September 2005 |

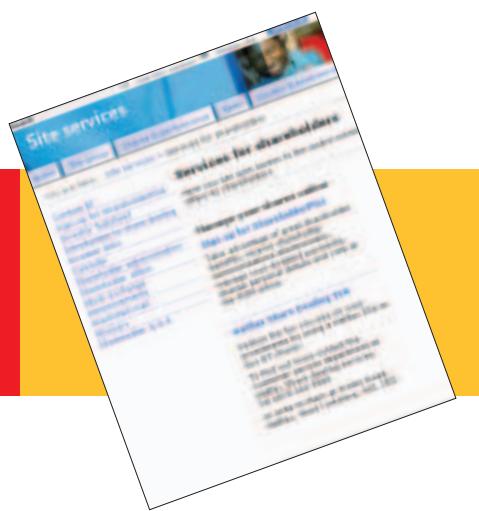
* Dates are based on present expectations

Welcome to new shareholders

BT

Have your dividends paid directly to your bank or building society account. It's easy, secure, reduces our costs – and you still receive your tax information. Just call our Shareholder Helpline on Freephone 0808 100 4141* or go to www.bt.com/signup and follow the on-screen instructions.

* Corporate, overseas and joint shareholders, and shareholders with more than 1,500 shares will need to ask for the appropriate form to complete, or use the online service



Online communication

More shareholders now receive all of their BT shareholder communications online, and are discovering the convenience of using the internet and email to find out about their shareholdings and about BT.

ShareholderPlus

Choose to receive all your BT shareholder communications online at www.bt.com/signup and you will qualify for ShareholderPlus, an exclusive range of shareholder offers on products and services from BT and partner companies. You can view the current offers at www.bt.com/shareholderoffers

Shareview

When you sign up for ShareholderPlus you are automatically registered for Shareview, provided in association with Lloyds TSB Registrars. This online service enables you to:

- update address and/or bank details online
- view dividend information including tax details
- buy or sell BT shares online at www.shareview.co.uk/dealing (or telephone 0870 850 0852)
- build and manage a full share portfolio
- appoint a proxy to represent you at company meetings.

Registration is free

Just go to www.bt.com/signup and follow the on-screen instructions, or call the Shareholder Helpline (see Contact BT). You will need your unique eight-character shareholder account number (printed below your name on the accompanying Admission Card/Proxy Card and also on your share certificate(s)).

Email alerts

To receive monthly email alerts about BT and new shareholder offers, click on email alerts at www.bt.com/sharesandperformance and select your area(s) of interest.

About BT

www.bt.com/aboutbt has a wealth of constantly updated information about BT, and www.bt.com/sharesandperformance has information of particular interest to our shareholders.

Contact BT

You can contact us by telephone, email or post.

Telephone

Shareholder Helpline – for general enquiries call:
Freephone 0808 100 4141 (+44 121 433 4404 from outside the UK)

Email

Send an email to Kevan Dale at: kevan@lloydstsb-registrars.co.uk

Post

Please write (including a daytime telephone number) to:
Lloyds TSB Registrars (2450)
The Causeway
Worthing
West Sussex
BN99 6DA

Other publications

BT produces a series of reports on its financial, business, social and environmental performance. Most of these can be found on our website at www.bt.com/aboutbt. Contact the Shareholder Helpline for printed copies, where available.

Special needs

An audio cassette version of the Annual Review (including extracts from the 2005 Notice of Annual General Meeting) has been produced for shareholders with special needs. To obtain a copy of this cassette, please contact the Shareholder Helpline.

ShareGift

The Orr Mackintosh Foundation operates a charity donation scheme for shareholders with small parcels of shares which may be uneconomic to sell. Details of the scheme are available from ShareGift at www.sharegift.org or by telephone on 020 7337 0501. Details can also be obtained from the Shareholder Helpline.

Unclaimed Assets Register

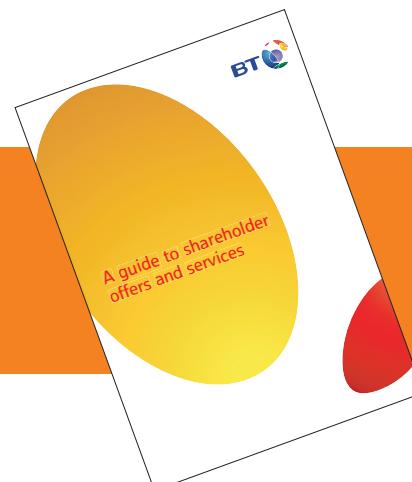
BT subscribes to this search facility for financial assets that have become separated from their owners. The register donates a proportion of its public search fees to charity via ShareGift. Further information can be found at www.uar.co.uk or telephone 0870 241 1713.

Capital gains tax

The rights issue in June 2001 adjusted the value of your BT shares for capital gains tax (CGT) purposes. An explanatory leaflet is available from the Shareholder Helpline.

The demerger of O2 in November 2001 adjusted the value of your BT shares for CGT purposes. For CGT calculations the base cost of the BT Group shares and O2 shares is calculated by multiplying the acquisition cost of the BT shareholding by 77.544% for the BT Group shares, and 22.456% for the O2 shares. This is in accordance with the confirmed opening prices for BT Group and O2 shares following the demerger.

Sign up for ShareholderPlus for an exclusive range of online shareholder offers.



Other publications

BT produces a series of reports on its financial, business, social and environmental performance. Most of these can be found on our website. Contact the Shareholder Helpline for printed copies, where available.

Consumer services

Further information on consumer services featured in this Annual Review is available as follows:

- BT Broadband – Call 0800 800 060 or visit www.bt.com/getbroadband
- BT Together – Call 0800 800 150 or visit www.bt.com/together
- BT Mobile – Call 0800 032 211 or visit www.bt.com/btmobile
- BT Communicator with Yahoo! Messenger – Call 0800 800 150 or visit www.bt.com/btcommunicator
- Internet Security Pack – Call 0800 800 150 or visit www.bt.com/premiumrates

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



BT Group plc
Registered office: 81 Newgate Street, London EC1A 7AJ
Registered in England and Wales No. 4190816
Produced by BT Group
Designed and typeset by Pauffley Ltd, London
Printed in England by Pindar plc
Printed on elemental chlorine-free paper sourced from sustainably managed forests



www.bt.com

PHME 47822

