

BT GROUP PLC
Form 20-F
May 23, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F

(Mark One)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended 31 March 2013

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report

For the transition period from to

Commission File Number: 1-08819

BT Group plc
(Exact name of Registrant as specified in its charter)

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Not Applicable
(Translation of Registrant's name into English)

England and Wales
(Jurisdiction of incorporation or organization)

BT Centre

81 Newgate Street, London, EC1A 7AJ

England
(address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
American Depositary Shares	New York Stock Exchange
Ordinary shares of 5p each	New York Stock Exchange*

* Not for trading, but only in connection with the registration of American Depositary Shares representing these shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the Annual Report:

8,151,227,029 Ordinary Shares, of 5p each

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☒ No ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes ☐ No ☒

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligation under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☐

Not Applicable

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☐ International Financial Reporting Standards as issued ☐ Other ☐

by the International Accounting Standards Board ☒

If Other has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes ☐ No ☐

Not Applicable

Table of Contents

TABLE OF CONTENTS

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

ITEM 3. KEY INFORMATION

ITEM 4. INFORMATION ON THE COMPANY

ITEM 4A. UNRESOLVED STAFF COMMENTS

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

ITEM 8. FINANCIAL INFORMATION

ITEM 9. THE OFFER AND LISTING

ITEM 10. ADDITIONAL INFORMATION

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

ITEM 15. CONTROLS AND PROCEDURES

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

ITEM 16B. CODE OF ETHICS

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

ITEM 16.F CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

ITEM 16.G CORPORATE GOVERNANCE

PART III

ITEM 17. FINANCIAL STATEMENTS

ITEM 18. FINANCIAL STATEMENTS

ITEM 19. EXHIBITS

SIGNATURES

Table of Contents

All references in this Form 20-F to us, we or the Company, are to BT Group plc.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

ITEM 3. KEY INFORMATION

3.A Selected financial data

The information set forth under the headings:

Financial highlights on page 6;

Group financial performance Group results on page 43;

Information for shareholders Cautionary statement regarding forward-looking statements on page 177

Selected financial data on page 173; and

Information for shareholders Exchange rates on page 182
of the Annual Report & Form 20-F 2013 as sent to shareholders and included as Exhibit 15.2 to this Form 20-F (Annual Report 2013) is
incorporated herein by reference.

3.B Capitalization and indebtedness

Not applicable

3.C Reasons for the offer and use of proceeds

Not applicable

3.D Risk factors

This section sets out the principal risks and uncertainties affecting us, but it is not exhaustive. These risks have the potential to impact our business, revenue, profits, assets, liquidity or capital resources.

As in the prior year, the uncertainties in the global economy and credit markets continue to present challenges, both to our business and to others. These challenges drive a number of the risks that we face and we focus our efforts on predicting and mitigating them. The principal risks we described last year have evolved, and so has our response to them.

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Our Enterprise Risk Management framework provides reasonable (but cannot give absolute) assurance that significant risks are identified and addressed. There may be risks which are unknown or which are presently judged not to be significant but later prove to be significant.

Security and resilience

In keeping with other organisations that process and store data, we have a responsibility to many millions of customers, both business and consumer, to safeguard their electronic information and to maintain the continuity of services. This requires the highest levels of operational security and resilience, which can be threatened at any time by incidents such as malicious cyber-attacks, theft of copper cable and equipment, vandalism, sabotage, extreme weather, component overload, loss of power and human error. The volume of traffic through our systems and networks is increasing, and customer tolerance of interruptions reduces as the world becomes ever more dependent on information technology.

Changes over the last year

Concerted efforts to deter cable theft, supported by legislative changes and the well publicised arrest and prosecution of thieves, are beginning to reduce the number of service interruptions in the network. Theft of equipment from our premises has also fallen significantly. However, we are detecting more cyber-attacks aimed at stealing data or disrupting our own and our customers' websites.

We have strengthened our defences against these cyber-attacks and now routinely cope with attacks that a few years ago would have caused considerable risk of data loss. Our segregation and encryption of data has increased. In further

Table of Contents

recognition of the importance of people and behaviours in managing this risk, a campaign to raise staff and supplier awareness of cyber threats is proceeding in response to the increasing sophistication of attacks. We have also refreshed our data protection governance with the appointment of a Chief Privacy Officer.

We are upgrading much of our equipment to improve reliability, increase capacity and reduce energy consumption. Severe flooding across the UK in the year caused several service outages that demanded urgent action and resources to be diverted.

Impact

A breach of our security, or compromise of data and/or resilience affecting our operations, or those of our customers, could lead to an extended interruption to network services or even affect national infrastructure. Such failure may lead to a loss of customer confidence, termination of contracts, loss of revenue, and reduced cash generation through penalties and unplanned costs of restoration and improvement. Additional reputational damage and financial loss may arise from a legal or contractual failing such as breaching data protection or handling requirements. Failure or interruption of data transfer could also have a significant adverse effect on our business.

Table of Contents

Major contracts

We have a number of complex and high-value national and multinational contracts with certain customers. The revenue arising from, and the profitability of these contracts are subject to a number of factors including: variation in cost; achievement of cost reductions anticipated in the contract pricing, both in terms of scale and time; delays in the delivery or achievement of agreed milestones owing to factors either within or outside of our control; changes in customers' requirements, budgets, strategies or businesses; and the performance of our suppliers. Any of these factors could make a contract less profitable or even loss making.

The degree of risk generally varies in proportion to the scope and life of the contract and is typically higher in the early stages of the contract. Some customer contracts require investment in the early stages, which is expected to be recovered over the life of the contract. Major contracts often involve the implementation of new systems and communications networks, transformation of legacy networks and the development of new technologies. The recoverability of these upfront costs may be impacted by delays or failure to meet milestones. Substantial performance risk exists in these contracts.

Changes over the last year

The difficult economic and market conditions, particularly in Europe, have increased financial and operational pressures on our customers and have made the environment even more competitive. With our investment and expansion into high growth regions, the landscape of our risks and opportunities naturally changes as we must deal with rapidly evolving geo-political risks and different trading environments and business practices. Our control and governance framework has been extended to include contracts between BT and UK local authorities seeking to extend the reach of fibre broadband in their regions.

For larger contracts, we have recently expanded the scope of independent reviews to critical stages of the contract lifecycle to help identify any key issues, risks and actions which need to be monitored.

Impact

Failure to manage and meet our commitments under these contracts, as well as changes in customers' requirements, budgets, strategies or businesses, may lead to a reduction in our expected future revenue, profitability and cash generation. Unexpectedly high costs associated with the delivery of contracts could also negatively impact profitability. We may lose revenue due to the merger or acquisition of customers, business failure or contract termination and contracts may become loss-making. Failure to replace the revenue and earnings lost from such customers could lead to an overall reduction in group revenue, profitability and cash flow.

Pensions

We have a significant funding obligation in relation to our defined benefit pension schemes. Low investment returns, high inflation, longer life expectancy and regulatory changes may result in the cost of funding BT's main defined benefit pension scheme, the BT Pension Scheme (BTPS), becoming a significant burden on our financial resources.

Changes over the last year

Following the conclusion of the 30 June 2011 triennial funding valuation of the BTPS in May 2012, the valuation documentation was submitted to the Pensions Regulator for their review. The final Court decision in the Crown Guarantee case, after any appeals, will give greater clarity as to the extent to which the liabilities of the BTPS are covered by a Crown Guarantee. This will inform the Pensions Regulator's next steps with regard to the valuation of the Scheme. Accordingly, as matters stand, it is uncertain as to when they will conclude their review.

Government bond yields have fallen since the valuation at 30 June 2011, with real yields being negative at times. This has been caused by a number of factors, including the Bank of England's Quantitative Easing programme. If the fall in yields is maintained and reflected in the next funding valuation, due as at 30 June 2014, this would increase the value of the BTPS liabilities.

Table of Contents

The European Commission is reviewing the current Directive for pensions and we responded to a relevant consultation during the year. The Commission's aim is to issue new draft legislation in summer 2013. Depending on its scope, there is potential for any legislative change to have an impact on BT's funding liabilities in the future. We will continue to monitor developments in this area.

Impact

An increase in the pension deficit and associated funding requirements may have an impact on the level of deficit payments we are required to make into the scheme. Indirectly it may also have an adverse impact on our share price and credit rating. Any deterioration in our credit rating would increase our cost of borrowing and may limit the availability or flexibility of future funding, thereby affecting our ability to invest, pay dividends or repay debt as it matures.

Growth in a competitive market

We operate in markets which are characterised by: high levels of change; strong competition; declining prices; technology substitution; market and service convergence; customer churn; declining revenues; new competitors; and regulatory intervention to promote competition and reduce wholesale prices.

A significant proportion of our revenue and profit is generated in the UK where the overall telecoms market has been in decline in real terms, despite strong volume growth in new services. Revenue from our calls and lines services to consumers and businesses has historically been in decline but new broadband and connectivity markets are growing. Our ability to deliver profitable revenue growth in a responsible and sustainable manner depends on us delivering on our strategic priorities.

Changes over the last year

The level of risk facing our business increased as the economic situation in the UK and other key markets deteriorated in the year. Depressed business activity together with lower disposable incomes continues to be a major barrier to growing revenues, particularly among business customers.

Regulatory decisions made during the year also contributed adversely to our risk profile, revenue and profits. These decisions failed to address imbalances in the competitive playing field. This means that some of our competitors in the consumer space benefit from limited regulation on their core business combined with extensive sector-specific regulation being applied to our UK fixed-line business.

A number of competitor-related developments have contributed to the risk increasing. These include, but are not limited to: the acquisition of Cable & Wireless Worldwide by Vodafone; the decision by Vodafone and O2 to establish a joint venture to consolidate existing network infrastructure and local transmission; the agreement which brought forward the timetable for 4G mobile services being launched in the UK; and increased competitive activity around over-the-top video on demand services in the UK.

Impact

Failure to achieve profitable revenue growth from our strategic priorities may lead to a continued decline in revenue, erosion of our competitive position and might also lead to a reduction in profitability and cash flow in the future.

Communications industry regulation

Our activities across all the jurisdictions in which we operate can be impacted by regulation. Regulatory requirements and constraints can directly impact our ability to compete effectively and earn revenues.

Table of Contents

In the UK where, following detailed market analysis, we are found to have significant market power, Ofcom requires us to provide wholesale services at regulated prices. It can also require us to make retrospective repayments to other CPs where we are found to have set prices outside regulatory requirements, and can impose fines on us for non-compliance with the regulatory rules, including competition law.

Outside the UK, general licensing requirements can restrict the extent to which we can enter markets and compete. Regulation will also define the terms on which we can purchase key wholesale services from others.

In the UK, risks can come from, for example, periodic market reviews which might introduce tighter regulatory constraints from new charge controls or from CPs disputing or complaining about our pricing, products or services. Outside the UK, regulators can investigate our licensing requirements and whether our services comply with their rules.

Changes over the last year

Over the last year, we have seen regulatory activity in a number of areas. A number of these rulings have resulted in a negative impact either through retrospective price reductions or on our future pricing.

Impact

Risks from regulation are most significant in the UK.

Around £5.8bn of our revenue (of which £3.3bn is to downstream parts of BT) is from wholesale markets where we have been found to hold significant market power and which are currently subject to regulatory charge controls. Most of these controls require us to reduce our prices annually to reflect expected reductions in unit costs through efficiency savings. Controls are usually set for three years and will therefore constrain revenues during that period.

Other CPs can ask Ofcom to resolve disputes with us about current or historic prices. Where Ofcom finds that these prices are, or have been, set at levels above those required under the regulatory framework, we may need to make retrospective payments to CPs.

We may from time-to-time be required to provide new services, or existing services on improved terms, to wholesale customers on a non-discriminatory basis. This could increase our costs.

Regulation outside the UK can impact our revenue by restricting our ability to compete through overly-restrictive licensing requirements or ineffective regulation of access to other CP networks.

Business integrity and ethics

We are committed to maintaining high standards of ethical behaviour, and have a zero tolerance approach to bribery and corruption. We have to comply with a wide range of local and international anti-corruption and bribery laws. In particular the UK Bribery Act and US Foreign and Corrupt Practices Act (FCPA) provide comprehensive anti-bribery legislation. Both have extraterritorial reach and thereby cover our global operations. As we expand internationally, we are increasingly operating in countries identified as having a higher risk of bribery and corruption.

We also have to ensure compliance with trade sanctions, and import and export controls.

Changes over the last year

The Serious Fraud Office (SFO) has produced revised guidance on the UK Bribery Act. The SFO has indicated it will now focus on its role as an investigator and prosecutor of serious and/or complex fraud and where there is sufficient evidence and it is in the public interest, prosecutions rather than civil settlements will now be pursued, even where companies have self-reported. This represents a change to its previous stance where self-reporting may have led to more lenient treatment. It has further confirmed that it considers facilitation payments to be bribes.

Table of Contents

The US Department of Justice and Securities and Exchange Commission have also produced guidance on the FCPA giving information about the US government's approach to FCPA enforcement.

In addition, sanctions regulations in Europe and the US have been extended.

Impact

Failure by our employees, suppliers or agents to comply with anti-corruption and bribery and sanctions legislation could result in substantial penalties, criminal prosecution and significant damage to our reputation. This could in turn impact our future revenue and cash flow, the extent of which would depend on the nature of the breach, the legislation concerned and any associated penalties. Allegations of corruption or bribery or violation of sanctions regulations could also lead to reputation and brand damage with investors, regulators and customers.

Supply chain

The integrity and continuity of our supply chain is critical to our operations. Our aim is to harness the capability, diversity and innovation of the global supply market to add value to our business and customers. We are committed to ensuring that all dealings with suppliers, from selection and consultation to contracting and payment, are conducted in accordance with our trading and ethical policies.

The failure of a critical third-party supplier to meet its obligations could cause significant harm to our business and the BT brand, as well as potentially impact our cost transformation and efficiency plans.

Changes over the last year

Many suppliers continue to be impacted by the global economic downturn and as a result we have seen an increase in the number of suppliers suffering from financial distress. The downturn has also increased the risk of suppliers applying less focus on key areas such as business continuity management or corporate and social responsibility in an effort to reduce their costs.

Impact

Whilst the size of the impact from a supplier failure can vary, all supplier failures typically result in an increased cost to our business and have the potential to negatively impact the service we provide to customers. In many cases the cost associated with supplier failure is significant, particularly if it then results in us having to change technology. If we are unable to contract with an alternative supplier, our customer commitments could also be compromised, possibly leading to contractual breach, loss of revenue, penalties or increased costs.

A failure in our supply chain to meet legal obligations or ethical expectations could adversely impact our reputation or possibly lead to censure, legal action and financial loss.

ITEM 4. INFORMATION ON THE COMPANY

4.A History and development of the company

The information set forth under the headings:

Our progress against our strategic priorities on page 7;

How we deliver our strategy on page 31;

Information for shareholders Background on page 178;

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Group financial performance Capital expenditure on page 50; and

Group financial performance Capital management and funding policy on page 48
of the Annual Report 2013 is incorporated herein by reference.

Table of Contents

4.B Business overview

The information set forth under the headings:

How we are organised on page 31;

Our customers and markets on page 36;

Regulation on page 38;

Our strategy on page 13;

Our business model on page 17;

Our strategic priorities on page 14;

How we measure our progress on page 22;

Our assets and resources on page 20;

Consolidated financial statements Notes to the consolidated financial statements Segment information on page 116;

Operational statistics on page 176;

Information for shareholders Cautionary statement regarding forward-looking statements on page 177; and

Information for shareholders Further note on certain activities on page 188
of the Annual Report 2013 is incorporated herein by reference.

4.C Organizational structure

The information set forth under the headings:

Our business model on page 17;

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How we are organised on page 31; and

Subsidiary undertakings on page 167
of the Annual Report 2013 is incorporated herein by reference.

4.D Property, plants and equipment

The information set forth under the headings:

Our assets and resources Properties on page 20;

Consolidated financial statements Notes to the consolidated financial statements Property, plant and equipment on page 128; and

Financial statistics on page 175
of the Annual Report 2013 is incorporated herein by reference.

ITEM 4A. UNRESOLVED STAFF COMMENTS

As far as the Company is aware, there are no unresolved written comments from the SEC staff regarding its periodic reports under the Exchange Act received more than 180 days before March 31, 2013.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

5.A Operating results

The information set forth under the headings:

Performance on page 41; and

Information for shareholders Cautionary statement regarding forward-looking statements on page 177
of the Annual Report 2013 is incorporated herein by reference.

Table of Contents

5.B Liquidity and capital resources

The information set forth under the headings:

Performance on page 41;

Information for shareholders Cautionary statement regarding forward-looking statements on page 177;

Consolidated financial statements Notes to the consolidated financial statements Loans and other borrowings on page 146;

Consolidated financial statements Notes to the consolidated financial statements Financial instruments and risk management on page 151;
and

Consolidated financial statements Notes to the consolidated financial statements Financial commitments and contingent liabilities on
page 162
of the Annual Report 2013 is incorporated herein by reference.

5.C Research and development, patents and licenses

The information set forth under the headings:

Our assets and resources Innovation on page 21; and

Financial statistics on page 175
of the Annual Report 2013 is incorporated herein by reference.

5.D Trend information

The information set forth under the headings:

Performance on page 41;

Selected financial data on page 173; and

Information for shareholders Cautionary statement regarding forward-looking statements on page 177
of the Annual Report 2013 is incorporated herein by reference.

5.E Off-balance sheet arrangements

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The information set forth under the heading Group financial performance Other information Off-balance sheet arrangements on page 52 of the Annual Report 2013 is incorporated herein by reference.

5.F Tabular disclosure of contractual obligations

The information set forth under the heading Group financial performance Other information Contractual obligations and commitments on page 52 of the Annual Report 2013 is incorporated herein by reference.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.A Directors and senior management

The information set forth under the heading Board of Directors on page 65 of the Annual Report 2013 is incorporated herein by reference.

6.B Compensation

The information set forth under the headings:

Reports of the Board Committees Report on Directors Remuneration on page 77;

Consolidated financial statements Notes to the consolidated financial statements Retirement benefit plans on page 132; and

Consolidated financial statements Notes to the consolidated financial statements Share-based payments on page 142 of the Annual Report 2013 is incorporated herein by reference.

Table of Contents

6.C Board practices

The information set forth under the headings:

Board of Directors on page 65; and

Reports of the Board Committees Report on Directors Remuneration on page 77
of the Annual Report 2013 is incorporated herein by reference.

6.D Employees

The information set forth under the headings:

Our people on page 18;

Group financial performance Income statement Operating costs on page 44; and

Consolidated financial statements Notes to the consolidated financial statements Employees on page 120
of the Annual Report 2013 is incorporated herein by reference.

6.E Share ownership

The information set forth under the headings:

Reports of the Board Committees Report on Directors Remuneration on page 77; and

Consolidated financial statements Notes to the consolidated financial statements Share-based payments on page 142
of the Annual Report 2013 is incorporated herein by reference.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.A Major shareholders

The information set forth under the headings:

Shareholders and Annual General Meeting Substantial shareholdings on page 97; and

Information for shareholders Analysis of shareholdings at 31 March 2013 on page 179
of the Annual Report 2013 is incorporated herein by reference.

7.B Related party transactions

The information set forth under the headings:

Directors' information Interest of management in certain transactions on page 94; and

Consolidated financial statements Notes to the consolidated financial statements Related party transactions on page 162 of the Annual Report 2013 is incorporated herein by reference.

7.C Interests of experts and counsel

Not applicable

ITEM 8. FINANCIAL INFORMATION

8.A Consolidated statements and other financial information

See Item 18 below.

In addition, the information set forth under the headings:

Group financial performance Other information Legal proceedings on page 52;

Group financial performance Income statement Dividends on page 46;

Table of Contents

Consolidated financial statements Notes to the consolidated financial statements Financial commitments and contingent liabilities on page 162;

Information for shareholders Dividends on page 180; and

Information for shareholders Articles of Association (Articles) Dividends on page 183
of the Annual Report 2013 is incorporated herein by reference.

8.B Significant changes

The information set forth under the heading Directors information Going concern on page 93 of the Annual Report 2013 is incorporated herein by reference.

ITEM 9. THE OFFER AND LISTING

9.A Offer and listing details

The information set forth under the heading Information for shareholders Stock exchange listings Share and ADS prices on page 178 of the Annual Report 2013 is incorporated herein by reference.

9.B Plan of distribution

Not applicable

9.C Markets

The information set forth under the heading Information for shareholders Stock exchange listings on page 178 of the Annual Report 2013 is incorporated herein by reference.

9.D Selling shareholders

Not applicable

9.E Dilution

Not applicable

9.F Expenses of the issue

Not applicable

ITEM 10. ADDITIONAL INFORMATION

10.A Share capital

Not applicable

10.B Memorandum and articles of association

The information set forth under the heading Information for shareholders Articles of Association (Articles) on page 183 of the Annual Report 2013 is incorporated herein by reference.

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10.C Material contracts

The information set forth under the heading Information for shareholders Material contracts on page 186 of the Annual Report 2013 is incorporated herein by reference.

10.D Exchange controls

The information set forth under the heading Information for shareholders Limitations affecting security holders on page 189 of the Annual Report 2013 is incorporated herein by reference.

Table of Contents

10.E Taxation

The information set forth under the heading Information for shareholders Taxation (US Holders) on page 186 of the Annual Report 2013 is incorporated herein by reference.

10.F Dividends and paying agents

Not applicable

10.G Statement by experts

Not applicable

10.H Documents on display

The information set forth under the heading Information for shareholders Documents on display on page 189 of the Annual Report 2013 is incorporated herein by reference.

10.I Subsidiary information

Not applicable

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information set forth under the headings:

Consolidated financial statements Notes to the consolidated financial statements Significant accounting policies Financial instruments on page 114; and

Consolidated financial statements Notes to the consolidated financial statements Financial instruments and risk management on page 151 of the Annual Report 2013 is incorporated herein by reference.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

12.D American Depositary Shares

During the 2013 financial year, the Company received direct and indirect payments from the Depositary of USD 498,009.08 which included the annual NYSE listing fee, investor relations expenses and other costs relating to the ADR program.

The Depositary also waived fees of USD 215,000 for administering the ADR program. The following table sets out the fees charged to ADR holders:

Category (as defined by SEC)	Depositary Actions	Associated Fee
(a) Depositing or substituting the underlying shares	Each person to whom ADRs are issued against deposits of Shares, including deposits and issuances in respect of:	USD 5.00 for each 100 ADSs (or portion thereof) evidenced by the new ADRs delivered

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Share distributions, stock split, rights,
merger

Exchange of securities or any other
transaction or event or other distribution
affecting the ADSs or the Deposited
Securities

(b) Receiving or distributing dividends	Distribution of dividends	USD 0.02 or less per ADS
(c) Selling or exercising rights	Distribution or sale of securities, the fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities	USD 5.00 for each 100 ADSs (or portion thereof)

Table of Contents

Category (as defined by SEC)	Depository Actions	Associated Fee
(d) Withdrawing an underlying security	Acceptance of ADRs surrendered for withdrawal of deposited securities	USD 5.00 for each 100 ADSs (or portion thereof) evidenced by the ADRs surrendered
(e) Transferring, splitting or grouping receipts	Transfers, combining or grouping of depository receipts	USD 2.50 per ADS
(f) General depository services, particularly those charged on an annual basis	Other services performed by the depository in administering the ADRs	USD 0.02 per ADS (or portion thereof) not more than once each calendar year and payable at the sole discretion of the depository by billing Holders or by deducting such charge from one or more cash dividends or other cash distributions
	Provide information about the depository's right, if any, to collect fees and charges by offsetting them against dividends received and deposited securities	
(g) Expenses of the depository	Expenses incurred on behalf of Holders in connection with	Expenses payable at the sole discretion of the depository by billing Holders or by deducting charges from one or more cash dividends or other cash distributions
	Compliance with foreign exchange control regulations or any law or regulation relating to foreign investment	
	The depository's or its custodian's compliance with applicable law, rule or regulation	
	Stock transfer or other taxes and other governmental charges	
	Cable, telex, facsimile transmission/delivery	
	Expenses of the depository in connection with the conversion of foreign currency into U.S. dollars (which are paid out of such foreign currency)	
	Any other charge payable by depository or its agents	

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable

Table of Contents

ITEM 15. CONTROLS AND PROCEDURES

The information set forth under the headings:

General Information US Regulation US Sarbanes-Oxley Act of 2002 on page 94;

General Information US Regulation Disclosure controls and procedures on page 95;

General Information US Regulation Internal control over financial reporting on page 95; and

Report of the independent auditors Consolidated financial statements United States opinion on page 101 of the Annual Report 2013 is incorporated herein by reference.

ITEM 16.A AUDIT COMMITTEE FINANCIAL EXPERT

The information set forth under the heading General Information US Regulation US Sarbanes-Oxley Act of 2002 on page 94 of the Annual Report 2013 is incorporated herein by reference.

ITEM 16.B CODE OF ETHICS

The information set forth under the heading General Information US Regulation US Sarbanes-Oxley Act of 2002 on page 94 of the Annual Report 2013 is incorporated herein by reference.

ITEM 16.C PRINCIPAL ACCOUNTANT FEES AND SERVICES

16.C(a) Audit Fees

The information set forth in the table under the heading Audit services in Consolidated financial statements Notes to the consolidated financial statements Audit, audit related and other non-audit services on page 120 of the Annual Report 2013 is incorporated herein by reference.

16.C(b) Audit-Related Fees

The information set forth in the table under the heading Audit related assurance services in Consolidated financial statements Notes to the consolidated financial statements Audit, audit related and other non-audit services on page 120 of the Annual Report 2013 is incorporated herein by reference.

16.C(c) Tax Fees

The information set forth in the table under the headings Other non-audit services Taxation compliance services and Other non-audit services Taxation advisory services in Consolidated financial statements Notes to the consolidated financial statements Audit, audit related and other non-audit services on page 120 of the Annual Report 2013 is incorporated herein by reference.

16.C(d) All Other Fees

The information set forth in the table under the headings Other non-audit services All other assurance services and Other non-audit services All other services in Consolidated financial statements Notes to the consolidated financial statements Audit, audit related and other non-audit services on page 120 of the Annual Report 2013 is incorporated herein by reference.

16.C(e)

The information set forth under the headings:

Reports of the Board Committees Audit & Risk Committee Chairman's report on page 71; and

Consolidated financial statements Notes to the consolidated financial statements Audit, audit related and other non-audit services on page 120
of the Annual Report 2013 is incorporated herein by reference.

16.C(f)

Not applicable

Table of Contents

ITEM 16.E PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

The information set forth under the heading Information for shareholders Share buyback on page 180 of the Annual Report 2013 is incorporated herein by reference.

ITEM 16.F CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable

ITEM 16.G CORPORATE GOVERNANCE

The information set forth under the heading General Information US Regulation New York Stock Exchange on page 94 of the Annual Report 2013 is incorporated herein by reference.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable

ITEM 18. FINANCIAL STATEMENTS

The information set forth under the headings:

Report of the independent auditors Consolidated financial statements United States opinion on page 101; and

Consolidated financial statements on page 102
of the Annual Report 2013 is incorporated herein by reference.

ITEM 19. EXHIBITS

The following exhibits are filed as part of this annual report:

- 1.1 Articles of Association of the Company, incorporated by reference to Exhibit 1.1 to the Company's Annual Report on Form 20-F dated May 26, 2010
- 4.1 Letter of appointment for Karen Richardson as a non-executive director, dated 17 October 2011, incorporated by reference to Exhibit 4.11 to the Company's Annual Report on Form 20-F dated May 24, 2012
- 4.2 Letter of extension of appointment of Phil Hodgkinson, dated 14 December 2011, dated 17 October 2011, incorporated by reference to Exhibit 4.12 to the Company's Annual Report on Form 20-F dated May 24, 2012
- 7.1 Table of Financial ratios
- 8.1 Significant subsidiaries as of March 31, 2013, see Subsidiary undertakings on page 167 of the Company's Annual Report & Form 20-F included as Exhibit 15.2
- 12.1 Section 302 certification of Chief Executive
- 12.2 Section 302 certification of Group Finance Director
- 13.1 Section 906 certification

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15.1 Consent of PricewaterhouseCoopers LLP, independent registered public accounting firm

15.2* Annual Report & Form 20-F 2013

* Certain of the information included within Exhibit 15.2, which is provided pursuant to Rule 12b-23(a)(3) of the Securities Exchange Act of 1934, as amended, is incorporated by reference in this Form 20-F, as specified elsewhere in this Form 20-F. With the exception of the items and pages so specified, the Annual Report & Form 20-F is not deemed to be filed as part of this Form 20-F.

Table of Contents

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

BT Group plc

/s/ Tony Chanmugam

Name: Tony Chanmugam

Title: Group Finance Director

Date: May 23, 2013