BT

Annual report and Form 20-F

2000

BT has set itself an ambitious vision: to be the most successful worldwide communications group. To achieve this, we intend to build shareholder value by:

- **seizing the many opportunities open to us in the global market**
- **building our current business, focusing on high-growth areas**
- **operating to the highest standards of integrity**
- **fulfilling our responsibilities to the communities in which we operate.**

We aim to do this by:

- moving rapidly to enable our customers to make the most of the unprecedented opportunities which arise as communications technologies converge and the markets in which we operate are transformed
- reshaping the company so that an increasing proportion of our revenues comes from new-wave activities – internet, multimedia, mobility, data and solutions
- expanding our current interests in growth markets around the world
- continuing to work with local partners outside the UK, and increasing our equity investments as opportunities arise
- developing and growing our business in the UK, with a new organisational structure that should enable greater management focus
- structuring the group to allow separate listings of parts of the business when this is judged to be in our shareholders' best long-term interests.

British Telecommunications plc is a public limited company registered in England, which has listings on the London, New York and Tokyo stock exchanges.

This is the annual report for the year ended 31 March 2000. It complies with UK regulations and is the annual report on Form 20-F for the Securities and Exchange Commission to meet US regulations.

This annual report has been sent only to shareholders who have elected to receive a copy. A separate annual review and summary financial statement for the year ended 31 March 2000 has been issued to all shareholders.

Contents

In this annual report, references to the ''financial year'' are to the year ended 31 March of each year, e.g. the ''2000 financial year'' refers to the year ended 31 March 2000. Unless otherwise stated, all non-financial statistics are at 31 March 2000.

References to the ''company'' are to British Telecommunications public limited company, and references to ''BT'' or the ''group'' are to the company and its subsidiaries, or any of them as the context may require.

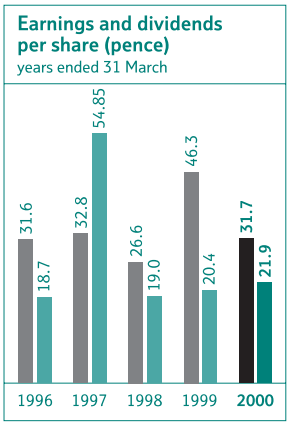
Please see cautionary statement regarding forward-looking statements on page 116

Financial highlights

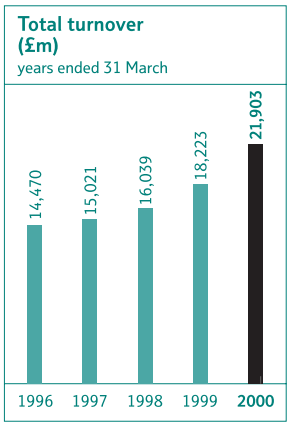
Years ended 31 March	**2000**	1999	1998
Total turnover – ongoing activities	**£21,903m**	£18,223m	£16,039m
Exceptional operating income (costs)	**£(111)m**	£(69)m	£238m
Total operating profit	**£3,198m**	£3,474m	£3,461m
Profit on sale of fixed asset investments	**–**	£1,107m	–
Profit before taxation	**£2,942m**	£4,295m	£3,214m
Windfall tax charge	**–**	–	£510m
Profit after taxation	**£2,045m**	£3,002m	£1,727m
Basic earnings per share	**31.7p**	46.3p	26.6p
Dividends per share	**21.9p**	20.4p	19.0p
Profit before goodwill amortisation, exceptional items and taxation	**£3,100m**	£3,274m	£2,976m
Basic earnings per share before goodwill amortisation and exceptional items	**34.2p**	35.0p	31.7p
Net cash flow from operating activities	**£5,849m**	£6,035m	£6,071m
Capital expenditure	**£3,680m**	£3,269m	£3,030m
Investment in associates and joint ventures	**£3,100m**	£1,326m	£1,380m

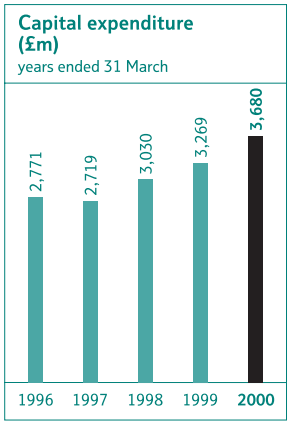
- Innovative restructuring to position BT ahead of the new wave in communications – announced in April 2000
- 20 per cent growth in total turnover
- BT Cellnet's customer connections up by 2.9 million to 7.4 million
- £3.1 billion invested in strategic alliances and joint ventures in Europe, North America and Asia Pacific
- Concert, BT's global venture with AT&T, launched
- Successful bid in April 2000 for a UK third generation mobile licence
- 7.4 per cent increase in dividends per share

The 1997 dividends included a special dividend of 35 pence per share

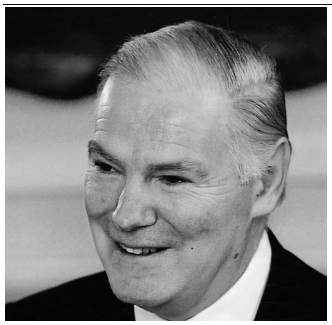


■ Earnings per share
■ Dividends per share





Chairman's message



The past financial year has seen rapid change in the communications industry around the world, presenting BT with many outstanding opportunities and challenges.

The opportunities have arisen from the remarkable pace of development in new-wave areas such as the internet, data and mobile services. These are now part of everyday life in many of the markets in which we operate. We are sure to see even more change and growth in the near future, as these previously separate technologies continue to converge.

BT's progress and development over the year has been encouraging. It confirms the soundness of our vision – *to be the most successful worldwide communications group* – and positions us well to take advantage of the opportunities that the future will present.

During the year:

- we increased total turnover by 20 per cent;
- Concert, our global venture with AT&T, was launched to serve the needs of global customers; and
- our alliance with Japan Telecom went from strength to strength.

Events in the early days of the new financial year have ensured that we maintain this momentum. In April 2000, we announced the regrouping of our activities into new, self-contained business units, and we were successful in our bid for a UMTS licence to operate the next generation of mobile services in the UK.

Total turnover for 1999/2000 increased by 20 per cent to £21,903 million, including our proportionate share of our ventures' revenues. Our share of our ventures' turnover grew to more than £3 billion, mainly because of the launch of Concert, and from our stakes in Japan Telecom and our mainland European ventures.

However, pre-tax profit (excluding exceptional items and before the charge for goodwill) declined by 5.3 per cent against the 1998/99 results, on a comparable basis, caused partly by a reduction in UK call prices, and a rise in interest costs as a consequence of investment in non-UK ventures, many of which are still in start-up mode.

Your Board is pleased to recommend a final dividend of 13.2 pence per share. This gives a total dividend for the year of 21.9 pence – an increase of 7.4 per cent on 1998/99.

Your company's performance is the culmination of the efforts of BT people throughout the world. I would like to record here my thanks to them for all that they achieved during the year.

I would also like to welcome the two new non-executive directors who joined the Board during the year – Lou Hughes and June de Moller.

BT is a company that has the potential to change people's lives and we take our responsibilities to the communities in which we operate very seriously.

We run one of the UK's largest community partnership programmes and take special care to ensure that our business activities are conducted in an environmentally friendly way.

I am delighted that, during the past year, our achievements in these areas have been widely recognised. In the UK, we won the Business in the Community Company of the Year Award and the Impact on Society Award for our community activities, and we came top of all FT-SE 100 companies in the Business in the Environment index of environmental engagement. We also achieved certification in ISO 14001, the international environmental management system, for our UK operations.

You will find a fuller description of our activities in this area starting at page 23 of this report.

The past year has, of course, seen the beginning of a new millennium. I am delighted that BT has played a major role in marking this event, both at the Greenwich Dome, where our Talk zone has proved immensely popular, and throughout the rest of the UK with our FutureTalk programme, which has highlighted the importance of communication as a key skill for the new millennium.

BT has achieved a great deal over the past year. We have shown that we have the vision, determination and flexibility to succeed in what is proving to be the world's most exciting and competitive industry. I look forward to further progress in the year ahead.

Iain Vallance

Sir Iain Vallance *Chairman*
24 May 2000

Chief Executive's statement

The communications industry is changing faster than ever before and, if BT is to stay ahead of the wave, it has to continue to change – in quite fundamental ways.

Developments in information and communications technology – the internet, mobility and multimedia – are transforming all our lives – at work, at home and in between.

And it's only just begun.

It's rapidly becoming a broadband world. New types of network and new methods of access, via cable, fibre, satellite and wireless, will bring information, communications and entertainment to customers, wherever they are, faster than ever before.

Customers will be "always-on", always connected.

And this requires a whole new response – a new way of thinking about what customers want and need, and how BT can supply it.

To succeed in this new world, we must:

- continue to increase our focus on our customers, whose expectations and requirements are becoming ever more sophisticated and demanding;
- bring new communications possibilities to our customers everywhere, at the right price; and
- get even better at spotting new opportunities and developing new business models.

And we have to do so *at speed*.

It is in response to these challenges that we are radically restructuring BT by creating a number of new international businesses, each with its own character and priorities but working together to meet customers' needs.

These new businesses are:

- **Ignite** our international broadband network business, focused primarily on corporate and wholesale markets;
- **BTopenworld** our international, mass-market internet business;
- **BT Wireless** our international mobile business, with a particular emphasis on mobile data; and
- **Yell** our international directories and associated e-commerce business, which we have announced we will be listing this year.

These new businesses will work alongside Concert, our global venture with AT&T, which will continue to serve the global communications needs of multinational customers.

We also intend to separate the UK fixed business into a wholesale business, using our fixed-network assets, and a retail business wholly focused on meeting customers' needs with an array of packages and propositions. Increasingly, the UK retail business will serve its customers using e-business technologies and channels.

The wholesale UK business will also benefit from the freedom to concentrate on its customers among the other operators in the UK.

This reshaping of BT should lead to even greater strategic flexibility, provide our employees with a wealth of opportunities, increase management accountability and enhance transparency for investors.

It's about the liberation of our people and our assets – these new businesses will be free to innovate and free to operate at speed.

It's about the creation of sustainable, long-term shareholder value.

And it's about growth – in both our existing and new markets.

Just consider, for a moment, what we've got going for us:

- BT is an integrated group of international businesses, serving consumers and business customers. If any company can offer genuinely seamless communications services, it has to be BT;
- we remain financially sound, which positions us well to take advantage of new opportunities as and when they arise;
- we have world-class research and development capabilities, and an excellent track record for innovation;
- we have a workforce of talented and committed people, who make it all possible; and
- we have excellent partners in our ventures.

I am confident that there continue to be good opportunities for BT and its shareholders in this new communications world. But, as we go in search of new revenue streams in new markets, we must continue to pay close and disciplined attention to issues such as market share and margins in those markets in which we already operate, as competitive pressure increases.

We are well placed to succeed – and I am determined that we shall succeed. I look forward to your continued support as BT moves into this new, exciting and challenging world.

Sir Peter Bonfield CBE *Chief Executive*
24 May 2000

Business review

Please see cautionary statement regarding forward-looking statements on page 116.

The review is divided into the following sections:

Introduction

BT has set itself an ambitious vision: to be the most successful worldwide communications group. To achieve this, we intend to build shareholder value by:

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We aim to do this by:

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- expanding our current interests in growth markets around the world;
- continuing to work with local partners outside the UK, and increasing our equity investments as opportunities arise;
- developing and growing our business in the UK, with a new organisational structure that should enable greater management focus; and
- structuring the group to allow separate listings of parts of the business when this is judged to be in our shareholders' best long-term interests.

We are in the process of transforming BT into a new-wave communications company, operating globally and concentrating increasingly on high-growth areas: the internet, mobility, multimedia, data and solutions.

To achieve this we have been investing significantly, building new, high-bandwidth networks that are essential to support these new activities. We have also been building up our activities outside the UK, particularly in Europe, North America and the Asia-Pacific region. We have interests in mobile and fixed-line operations capable of reaching about 80% of the population of western Europe and virtually all of its major business centres. In the Asia-Pacific region, we have interests in Japan, Hong Kong, Singapore, Malaysia, the Republic of Korea, Australia, New Zealand and India.

We have made a number of significant acquisitions since the beginning of the 2000 financial year:

- In November, we acquired for £3.17 billion the 40% minority interest in BT Cellnet held by Securicor.
- Together with AT&T, we acquired a 30% stake in Japan Telecom, one of Japan's largest telecommunications groups for about £1.2 billion (Yen 220 billion). Through a holding company structure, BT has an economic interest of 20%. The deal was finalised in September 1999. Japan Telecom serves all types of residential and business customers and operates in the international, long-distance, data, internet and local markets in Japan. It also has significant interests in digital mobile services.
- Again with AT&T, we made two strategic moves in the Canadian telecommunications market. In August 1999, we acquired indirect equity stakes in Rogers Cantel Mobile Communications, one of Canada's leading mobile operators and AT&T Canada. The total cost of these acquisitions was about £660 million.
- In March 2000, under a public offer, we acquired control of the Republic of Ireland's Esat Telecom Group for approximately £1.5 billion. Esat operates a fixed-line network in Ireland and has a 49.5% interest in mobile

operator Esat Digifone. We also acquired directly a 1% beneficial interest in Esat Digifone.

- In April 2000, we announced we had agreed to take sole control of Telfort, our Dutch joint venture, by acquiring the 50% we did not already own, for £1.16 billion (NLG 4.2 billion). Telfort provides fixed and mobile services in the Netherlands to businesses and consumers.

Our strategy outside the UK is to work with local partners and in broader alliances, such as Concert, our global joint venture with AT&T which was launched during the 2000 financial year. The proportion of our total turnover arising from our activities outside the UK continues to increase. In the 2000 financial year, it was around 18%, compared with around 10% in the previous financial year.

International boundaries are becoming less significant as the use of new communications technologies spreads. Accordingly, following a comprehensive strategic review of the factors driving the industry, we announced, on 13 April 2000, a restructuring of the company.

We will separate the UK fixed-network business into two divisions – wholesale and retail – and regroup our other assets in the UK, Europe and elsewhere by market sector rather than geography to form four potentially high-growth global businesses:

- **Ignite** a broadband internet protocol (IP) business;
- **BTopenworld** a mass-market internet business;
- **BT Wireless** an international mobile business; and
- **Yell** an international directories and e-commerce business.

The objective of the restructuring is to improve BT's position in a rapidly changing marketplace, with a sound balance between management focus, the ability to capture cross-business synergies and the flexibility to meet future needs.

It is planned that the four new businesses will start operating in their new form in summer 2000. The separation and determination of the detailed structure of the UK wholesale and retail businesses is expected to take place later this year.

The principal components of the group's turnover during each of the last five financial years, together with the growing significance of the proportionate share of its ventures' turnover, are shown in the table below.

BT in the UK

The new structure

The separation of the UK fixed-network business into wholesale and retail should facilitate more focused management. This move anticipates the continued expansion of a competitive communications marketplace.

The wholesale business will comprise the UK copper access network, the core circuit switched network and local exchanges. It will use this comprehensive UK asset base to supply services to other telecoms operators and service providers as well as BT's own retail operation. Our IP network in the UK will be operated by Ignite (see below).

The retail business will provide account-managed and packaged solutions, allowing business and residential customers to benefit from the full range of BT products,

	Years ended 31 March				
Turnover summary – ongoing activities	1996*(a)* £m	1997*(a)* £m	1998*(a)* £m	1999*(a)* £m	**2000 £m**
Fixed-network calls	6,037	5,919	5,788	6,026	**5,908**
Exchange lines	2,907	3,043	3,190	3,351	**3,526**
Mobile communications	856	949	1,089	1,400	**2,170**
Receipts from other operators	1,133	1,094	1,249	1,417	**1,974**
Private services	1,074	1,131	1,131	1,140	**1,135**
Customer premises equipment supply	946	914	896	870	**847**
Yellow Pages and other directories	408	438	466	491	**642**
Other sales and services	1,085	1,447	1,831	2,258	**2,513**
Group turnover	14,446	14,935	15,640	16,953	**18,715**
Share of associates' and joint ventures' ongoing turnover *(b)*	24	86	399	1,270	**3,364**
Trading between group and principal joint venture	–	–	–	–	**(176)**
Total turnover – ongoing activities	14,470	15,021	16,039	18,223	**21,903**

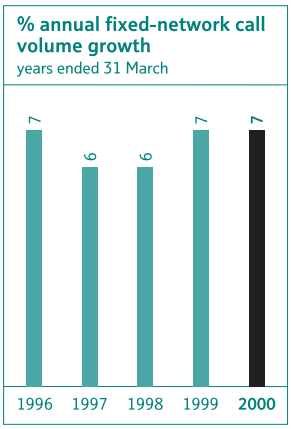
(a) Figures for the 1996 to 1999 financial years have been restated to conform with the method of classification used in the 2000 financial year.
(b) Excludes associates and joint ventures no longer part of the group.

including mobile and e-commerce solutions. It will include UK call centres, customer service, account management, marketing and field engineering.

The wholesale and retail UK businesses will trade on an arm's length basis. BT believes that the separation of the wholesale and retail businesses could allow regulation to be concentrated on the wholesale business and enable the retail business to be regulated in a similar manner to other equivalent businesses.

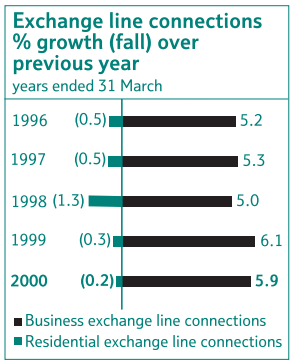
The fixed network

Within the UK, BT has 28.5 million customer lines (exchange line connections). About 20 million of these are residential lines, the remainder being business lines, of which 2.4 million are high-speed integrated service digital network (ISDN) lines.



In the 2000 financial year, BT's operating profit was derived predominantly from fixed-network calls in the UK. Calls on the UK fixed network accounted for approximately 32% of group turnover in the 2000 financial year. Fixed-network calls comprise calls within the UK and calls made from the UK to other countries. On average, about 94 million UK local and national calls are made every day. Call volumes continue to grow, predominantly because of the continuing rapid rise in the number of calls made to mobile phones and in the level of internet usage.

Exchange line turnover comprises rental and connection charges and accounted for about 19% of group turnover in the 2000 financial year. Revenue from these activities continues to grow, mainly because of the increase in the number of business lines, particularly high-speed ISDN lines. The number of residential lines declined slightly over the year. In general, exchange line customers are charged a uniform quarterly rental per line. Charges for business lines are higher than for residential lines. Since the beginning of 1995, BT has experienced a small net reduction in the number of its residential line connections as a result of increasing competition from cable operators, particularly in towns and cities. Business connections have shown a steady increase over the same period.



Many other operators use our network to help deliver their customers' calls. This interconnect activity has increased rapidly as competition in the UK fixed and mobile sectors has intensified. The receipts from other operators for this activity accounted for about 11% of group turnover in the 2000 financial year.

Carrier pre-selection (CPS) is being introduced by BT to enable customers to pre-select an alternative carrier for their calls without the need to dial additional access codes. Because this requires BT to upgrade its exchange-based switches, CPS has been introduced, on an interim basis, by means of auto-diallers installed on customers' premises. It is anticipated that the exchange-based solution will be available for national and international calls by January 2001 and for all calls by January 2002, making this part of the market even more competitive. When CPS is introduced throughout the European Union, it should offer revenue-earning opportunities for BT's joint ventures in Europe.

In April 2000, a modification was made to BT's Licence, with BT's consent, which will allow local loop unbundling. This means that other telecommunications operators will be able to use BT's copper local loops (the connections between the customer's premises and the exchange) to connect directly to their customers. The condition is due to come into effect in July 2001. Work to prepare for implementation by that date is under way. Operators will also be able to install their own technology in BT exchanges. This could result in further intensification of competition in the telecommunications markets, in particular the broadband markets.

BT provides customers with private circuits, lines between fixed points reserved for the customer's exclusive use, charged at a fixed rate irrespective of usage. Some 55% of these lines are ISDN. Revenue from these private services accounted for approximately 6% of group turnover in the 2000 financial year.

We offer in the UK the sale or rental of a wide range of communications equipment, from telephones for use in the home to advanced private exchange equipment for businesses, which accounted for 5% of the group's financial turnover in the 2000 financial year. Among other services, we offer public payphones, advanced data and voice services, visual services, including distributing

television material for broadcasting organisations and closed circuit television operators, and audio and videoconferencing.

Marketing and pricing

In a market as competitive as communications in the UK, effective marketing and pricing are very important. Over the past year, our marketing focus has been on the launch of new services and call stimulation, both internet and voice, and we have introduced a number of competitive pricing packages with calls costing from less than 1p per minute at the weekends and weekday evenings.

Our website, www.bt.com, is increasingly being used for marketing and promotion and as a channel for customers to contact us. It has been the destination for customers to register interest in forthcoming launches and there has been a steady increase in the number of orders made through www.bt.com, particularly for additional exchange lines. We routinely receive over a million page hits a day and on-line services such as Directory Enquiries and View My Bill are very popular.

"Stay in touch", our campaign based around the character ET, is aimed at increasing call usage and the penetration of internet and additional lines among residential customers. "Stay in touch" has addressed many communications issues during the year, including the launch of a website specifically designed for people who work from home.

Thousands of people continue to come back to BT every week and, at the beginning of the year, we removed the reconnection charge. To some customers this was a barrier to returning and, since the charge was removed, the numbers of people reconnecting has continued to grow steadily throughout the year.

For businesses, the "You Can" campaign has highlighted the improved efficiency and effectiveness that communications makes possible and the role that BT can play in helping customers to find solutions to their communication needs.

Getoutthere.bt.com is a website dedicated to showcasing new talent. BT created the site to give young people the opportunity to express themselves through uploading music and film and giving their work an audience. Over 1,000 music tracks and films are already on the site and several industry experts have given the site their support.

BT has continued to reduce prices over the past year and has also simplified its price structure, while at the same time introducing new options to give customers greater choice and control over how they are charged for using our products and services. All of our residential customers (except those on special schemes for low users) now get a free call allowance included as part of the standard rental. The new BT Together range of pricing plans provides residential and smaller business customers with competitive prices, inclusive call allowances and other value features for a single monthly fee. BT has also introduced the BT Commitment option to deliver competitive prices to the corporate business customer.

Building on the momentum created by BT Together, we announced the introduction of SurfTime in March. SurfTime is expected to be available in June 2000. It is planned for SurfTime to offer unlimited internet calls for a fixed fee. SurfTime will mean that surfing the internet at peak times in the UK, already cheaper than in much of Europe, can be cheaper than in the USA.

In March 2000, the Organisation for Economic Co-operation and Development (OECD) researched the best internet access prices offered by the largest national operator in each member country. The OECD reported that the BT Internet package provided the cheapest off-peak internet access amongst all 29 countries.

Customer satisfaction

BT's quality of service and our customers' satisfaction with that service is extremely important to us. To ensure that our customers are satisfied with our service and to understand ways in which we can improve it, we talk to thousands of our UK customers every month. We also run an extensive market research programme to focus on wider issues and to help us match our product and service offerings to customer requirements.

During the 2000 financial year, specialist market research agencies, acting on our behalf, talked to around 400,000 residential and business customers in the UK about all aspects of the services we provide.

For the period October 1999 to March 2000, we continued to score well in terms of overall customer satisfaction with 83% of residential customers and 80% of business customers giving BT a score of seven or more out of ten for overall satisfaction with the company.

We also closely monitor our performance against a number of key business measures, including providing services in response to orders and remedying faults when they appear. For business customers, almost 99% of orders are completed by the agreed date, a level of performance that remained consistent throughout the year. For residential customers, the figure is almost 98%.

For provision of services, 74% of business customers and 86% of residential customers stated that they were satisfied with BT's performance. These performance levels were delivered against a background of increasing demand for services, particularly for second lines in support of the increase in internet usage.

Our repair services came under pressure at times during the course of the year. However, the impact on our customers has been limited, as a result of a number of initiatives we have taken: we have recruited more field engineers and call centre staff and introduced programmes to reduce the number of repeat faults experienced by our customers and improve the quality of our workmanship.

Key issues for our customers are how quickly we complete their order or repair their fault, how well we keep them informed during this process, especially if delays occur, and how easy it is to contact us to place an order or report a fault.

There has been a steady improvement in the reliability of our access network since October 1999 as a result of our continued investment in network improvement.

We continue to give our customers an improving level of payphone service, with 96% of our payphones working at any one time. The percentage of customers who are very satisfied with the public payphone service rose to almost 87%.

We aim to answer all operator assistance (100) and number information (192) calls within 15 seconds and, during the past six months, 94% of operator assistance and 95% of number information calls were answered within this timeframe.

Ignite – our data business

Ignite, which will operate our broadband IP business, will deliver a range of services, in particular data transport, web hosting, customised e-solutions and packaged applications software. Ignite will combine our broadband IP networks in the UK and continental Europe, with the aim of opening the way to significantly faster and more efficient on-line communications for our business users, ISPs and other carriers. Our solutions businesses, Syntegra and BT Syncordia Solutions, will continue to operate globally.

Together with our joint venture partners, BT has an inter-city fibre network connecting 100 cities in nine countries across Europe. We also have city fibre rings in the UK and nine continental European cities resulting in a combined total of 50,000 route kilometres of fibre cable in our network. Our IP network in the UK has over 100 points of presence. We plan to grow our European backbone network to 70,000 kilometres in 2001. By the end of 2001, we expect our IP network to connect 250 cities in 16 countries. Ignite's connection to Concert's global IP backbone, described below, will give it reach to virtually all major commercial centres across the globe.

In South America, BT has a stake in ImpSat, the Argentinian-based network services company which operates a satellite and fibre network covering the whole of South America.

Among the value-added services Ignite will offer is web hosting, that is running customers' websites on our own servers. Ignite will take in the seven data centres in Europe from which this service is currently run, and there are plans to increase the number of data centres to 19 by the end of 2001. We also plan to launch an applications service provider business, making software applications in areas such as payroll, human resources and customer relationship management accessible via the internet to small and medium-sized enterprises and divisions of major corporates.

Ignite will also include BT's international solutions businesses, Syntegra and BT Syncordia Solutions, two distinct but complementary businesses, which between them had turnover of £1.5 billion, including work done for other parts of BT, in the 2000 financial year. As a global consulting and information business, Syntegra is a market leader in creating new systems, which, through the use of the internet and associated technologies, are transforming business to business relationships around the world. Its acquisition for £213 million of Control Data Systems (renamed Syntegra (USA)) in August 1999 extended Syntegra's global capabilities and reach, and Syntegra now has customers in more than 60 countries. BT Syncordia Solutions is a leading provider of integrated information and communications solutions. Underpinned by the internet and associated technologies, these solutions are based on end-to-end managed IP networks and the provision of e-business and e-CRM (electronic customer relationship management) applications on these networks.

Ignite will be responsible for the rollout of broadband technology using ADSL (asymmetric digital subscriber line) technology in the UK and continental Europe. ADSL technology turns an ordinary copper telephone line, connecting a customer's premises to the local exchange, into a high-speed digital connection. This should significantly enhance services such as fast internet access, videoconferencing, on-line education and information

services, enabling users to download information, images, video or graphics almost instantly. An existing telephone line is transformed by installing electronic equipment in the local exchange and on the customer's premises, which means that the network can normally be upgraded without having to dig up the street. ADSL capability is currently available from over 400 UK exchanges and, by mid-2000, ADSL is expected to be extended to a further 100 exchanges.

Almost 5,000 customers are part of the ADSL trial, which should lead to launch in June 2000. We have signed agreements with more than 40 service providers who will provide interactive services over the ADSL lines.

BTopenworld – our mass-market internet business

BTopenworld will bring together, in a single mass-market business, all of our existing UK internet service providers (ISPs) and portals and Open, our digital interactive television joint venture with British Sky Broadcasting Group (BSkyB). It will also include BT's international wholly-owned ISPs, as well as BT's interests in the ISPs of its ventures across the world.

Internet services earn us revenue directly, through e-commerce, advertising and subscriptions, and indirectly, through increased network usage. It is expected that advertising and transaction charging for e-commerce will form an increasing proportion of our internet revenue.

We believe that BTopenworld will start operations as one of the largest mass-market internet companies in Europe, with around 2.5 million customers; about 1.7 million of these customers are served by companies which will be wholly owned by BTopenworld and the other 0.8 million represent our proportionate share of our ventures' customers – equity customers. About 1.3 million of BTopenworld's customers will be in the UK and 0.9 million in continental Europe.

The business will assume responsibility for BT's wholly-owned ISPs in the UK, BT Internet (a business providing unlimited off-peak internet access for a flat fee) and BT Click (a no-subscription ISP providing internet access for the cost of a local phone call).

The business will also manage BT's other internet ventures in the UK:

- our 50/50 joint venture with LookSmart, a leading US-based on-line navigation company, which creates and distributes internet portal services throughout Europe and Asia;
- ExciteUK, our 50/50 joint venture with Excite, through which we provide our btclick.com service;
- LineOne, an ISP run as a 50/50 joint venture with United News & Media; and
- our virtual ISP services, which provide internet access service on a wholesale basis for companies such as Tesco and WH Smith.

Internationally, BTopenworld will take direct management control over BT's existing wholly-owned internet businesses including:

- Infinito, an internet access service for the Italian market which acquired more than 300,000 active customers in the first three months following its launch;
- Arrakis, an ISP operating in Spain, with more than 130,000 active customers; and
- Oceanfree.net, Ireland's first free-access consumer internet service, with about 70,000 active customers.

(Active customers are those who use the service within a given number of days – usually 30).

Our joint ventures' internet offerings include:

- Planet-Interkom in Germany, which has more than 100,000 customers and in which BT has a 45% stake;
- sunrise communications in Switzerland, in which BT has a 34% stake and which operates Freesurf, Switzerland's third largest ISP, and carries traffic for 18 of Switzerland's top 22 ISPs;
- Telenordia, in Sweden, of which BT owns a third, and which has more than 300,000 residential and business customers for its range of internet services;
- iSm@rt in Hong Kong, the ISP of SmarTone, in which BT has a 20% stake and which has over 200,000 customers;
- MaxisNet in Malaysia, launched in October 1999, in which BT has a 33% stake, and which has some 112,000 customers;
- Japan Telecom's internet service with around 900,000 customers; and
- StarHub Internet in Singapore, in which we have a 19% stake, and which has approximately 169,000 customers.

In Italy, I.NET also provides managed internet connectivity and applications hosting.

BTopenworld will be responsible for Genie, which has pioneered mobile internet services in Europe. Genie was the first mobile ISP to be introduced in Europe, the first to introduce a commercial wireless application protocol (WAP) service and the first to launch WAP e-mail. It currently has more than 600,000 customers, of which over 450,000 used the service during March 2000. Genie services

are being rolled out by a number of BT's partners and operations outside the UK.

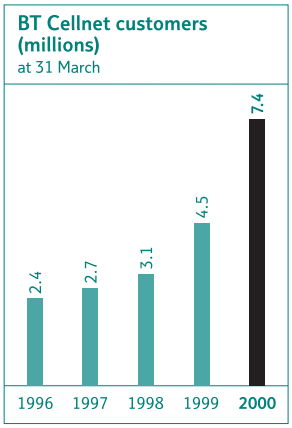
BTopenworld will also be responsible for BT's investment in Open, the joint venture with BSkyB and others, currently providing interactive services through digital satellite television to about 2.8 million homes. The service was launched in Autumn 1999. Over 600,000 customers have registered for Opentalk, the e-mail service from BT, and, of these, approximately 40% are regular e-mail users.

Central to what BTopenworld plans to offer its customers will be the Personal openworld Portal (PoP), a single point from which customers can access services via mobile phone, personal computer or TV. In April 2000, BTopenworld announced plans to launch a mass-market broadband portal and high-speed internet service from July. The service will be aimed at consumers, small businesses and teleworkers and is planned to provide high-speed, always-on access to the internet and a range of highly personalised, content-rich and interactive applications. Deals have been signed with more than 50 content providers who will use and support this service.

BT Wireless – our mobile business

BT Wireless will group together all of BT's interests in mobile assets worldwide, including BT Cellnet, BT's portfolio of European, Asia-Pacific and North American mobile assets and the Advance alliance with AT&T. BT Wireless will have operations in 14 countries with nearly 15 million equity subscribers.

The UK mobile phone market continues to grow rapidly and remains extremely competitive with great pressure on prices. The overall market has grown by 83% to 27 million customers (the market for customers on pre-pay contracts has grown by 244% to over 15 million customers and now makes up 56% of the total market).



BT's revenue from UK mobile communications accounted for about 12% of group turnover in the 2000 financial year.

BT Cellnet has 7.4 million customers, an increase of 64% from March 1999, and continues to attract significant numbers of customers on post-pay contracts, which represent 51% of its digital customer base. The majority of the additions were pre-paid phones which have helped stimulate a significant growth in the use of the short messaging service. Generally post-pay phones deliver higher revenues per user than pre-paid.

Directly controlled shops are playing an increasingly important part in BT Cellnet's marketing and sales activities. In April 2000, BT Cellnet purchased the 60% of The Mobile Phone Store that it did not already own, for £45 million. The retail chain has 129 stores in the UK and its purchase brings the total number of retail outlets under BT's direct control up to almost 300. The move followed the purchase of two cellular retail outlets, BT Cellnet Lumina (formerly Martin Dawes Telecommunications) in the 1999 financial year and DX Communications, in the 2000 financial year.

BT Cellnet has continued to enlarge its UK digital cellular GSM network and is investing in general packet radio services (GPRS) technology to support its WAP high-speed mobile data communications system, launched in January 2000.

In HM Government's auction, which concluded in April 2000, BT obtained a licence for £4.03 billion to operate third generation (3G) mobile services. In addition to conventional voice, fax and data services, 3G offers the prospect of high-resolution video and multimedia services on the move, such as mobile office services, virtual banking and on-line billing, home shopping, video conferencing, on-line entertainment and internet services.

The licence, coupled with our existing GSM spectrum, should enable us to deliver first class mobile multimedia services at competitive prices, and should help us build on our leading position in the mobile internet market.

BT Wireless, in conjunction with its joint venture partners, plans to bid for 3G licences in its existing markets. We may also bid for 3G licences in other markets.

As well as Telfort Mobile, Rogers Cantel and our share in Esat Digifone, mentioned above, which we acquired this year, our ventures' mobile activities outside the UK include:

- Viag Interkom in Germany, in which we have a 45% stake and which has 1.3 million customers;
- in France, SFR (part of Cegetel, in which we have a 26% stake), which has 7.9 million customers;
- Airtel, Spain's second largest GSM licensee, in which we have a 17.8% stake, and which has 5.6 million customers;
- Blu in Italy which holds Italy's fourth mobile licence. Blu's mobile service was launched in May 2000;

- SmarTone, which has about 700,000 customers in Hong Kong;
- Maxis Mobile in Malaysia, of which we own a third and which has almost a million customers;
- LG Telecom, in which BT has a 24.12% stake, which is South Korea's fourth largest mobile phone operator with 3.4 million customers; and
- Bharti Cellular in New Delhi, India, of which BT owns 44% and which is the single profitable cellular operator in India with about 200,000 customers.

In March 2000, we announced our intention to increase our interest in J-Phone Communications in Japan, so giving us a substantial involvement in one of the three players in the world's second largest mobile market and an equity interest in a number of regional Japanese mobile phone companies. The J-Phone investment delivers significant knowledge transfer benefits – Japan will be early to market with third generation broadband mobile services and the Japanese industry continues to be innovative in applications and equipment. J-Phone currently has over eight million customers.

We are working with other major players to extend the range and scope of our mobile offerings. In September, we announced the formation of Advance, a strategic alliance with AT&T aimed at creating seamless mobile communications services around the world. This alliance will focus on developing new services for global travellers and multinational customers. And we are working with Microsoft and AT&T to conceive, develop and deploy new wireless broadband applications for consumer and business markets around the world.

Yell – our directories and associated e-commerce business

Yell has nearly 600,000 advertising customers in the UK and the US for its printed classified directories and its developing e-business capabilities, and services over 40 million households and businesses. The revenues from UK Yellow Pages and other directories, including those of Yellow Book USA, represented about 3% of the group turnover in the 2000 financial year.

Following its acquisition of Yellow Book USA in August 1999 for £415 million (US$665 million), Yell now has a substantial presence in the USA, the most valuable classified advertising market in the world. In the UK, in addition to UK Yellow Pages and Business Pages directories, the portfolio includes: Yell.com, a leading internet and WAP directory portal; Talking Pages, an operator-assisted finder service, targeted at people on the move; and The Business Database, a major information and analysis provider to the direct marketing industry in the UK. Through the marketing of web sites, web addresses and banner advertising, Yell has already developed an internet customer base and significant e-commerce expertise.

Concert

On 5 January 2000, BT and AT&T, the US telecommunications operator, combined major parts of their international resources to form Concert, a major global communications joint venture owned equally by the parents.

The new company is shaped from the combination of the trans-border assets and operations of BT and AT&T, including their international networks, all their international traffic, and their international products for business customers. Supporting Concert, BT, AT&T and their family of joint ventures will be a common networking architecture planned to provide seamless service to customers.

Concert's frame relay network reaches every major city in the USA and the UK and extends to a further 170 cities in 53 countries. Its global network directly reaches 237 countries. Concert also has investments in 100 undersea cables totalling more than 470,000 kilometres globally.

In addition to using BT and AT&T's extensive networks in the UK and USA, Concert has built a high-speed internet protocol (IP) backbone network, spanning 21 cities in 17 countries. This backbone supports a wide range of internet access, internet backbone and IP virtual private network services. Concert's IP network is interconnected with BT and AT&T's domestic IP backbone networks, which distribute Concert services in the US and UK markets. Work is underway to integrate the Concert network with the IP backbone network which AT&T announced it had acquired from IBM. When this integration is completed, the Concert IP backbone network will extend to more than 60 cities worldwide.

Operating from multiple locations globally, Concert comprises three businesses:

Global Accounts: Concert provides communications services to approximately 270 multinational companies who may contract and receive service virtually anywhere in the world. This business serves the communications needs of customers from the financial, petroleum and information technology sectors. It has its own dedicated sales and service team of around 2,000 people in locations all over the world.

Global Markets: Working through a global network of distributors, Concert offers facilities-based communications solutions for multinational companies and other business customers and institutions worldwide. AT&T, BT and other distributors around the world sell Concert services, including private line, frame relay, global software defined networks and value-added IP services. This part of the business includes the activities of BT's former wholly-owned subsidiary, previously known as Concert Communications Services. Working through its network of global distributors, Concert serves about an additional 29,000 customers worldwide.

International Carrier Services: This business sells services to fixed and wireless carriers and ISPs worldwide, including AT&T and BT. This year, AT&T and BT's combined international voice traffic is expected to be approximately 25 billion minutes.

From January 2000, the responsibility for handling transit calls and the termination of outgoing calls from the UK has been transferred from BT to Concert. BT continues to handle the termination of incoming international calls into the UK, but these are now routed through Concert.

Research and development

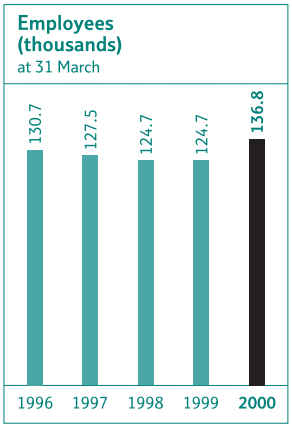
Our commitment to research and development is fundamental to ensuring we continue to exploit the latest technologies to provide our customers with advanced information and communication services.

We have research and development centres at Adastral Park (Martlesham) Ipswich, London, Cardiff, Belfast and Glasgow. Our own highly-skilled teams of engineers are complemented by partnerships with leading technology suppliers and universities on a global scale.

In the 2000 financial year, we invested £345 million in research and development. Major areas of work included the next generation internet, broadband wireless and fixed access networks, advanced data services, information and network security, 3G mobile multimedia services and the software system to support the management and integrity of our networks worldwide. We are also undertaking research on the impact of advanced communications on lifestyles, education and healthcare in the connected society of the twenty-first century.

Our people

At 31 March 2000, BT employed around 137,000 people throughout the world, with 126,000 in the UK, making us one of the UK's largest private sector employers.



The number of people employed increased by approximately 12,000 in the year. This increase included almost 6,600 joining through acquisitions and new subsidiaries, the conversion of around 2,500 former agency people onto BT employment, plus recruitment in the UK business to meet increased demand – particularly in our mobile, internet and multimedia businesses. Additional resources have also been brought in to continue the transformation of our network and to prepare for new products such as the ADSL broadband launch. BT recruited almost 600 high-calibre graduates in the year, across all areas of the business.

As part of the continuing programme of reshaping the group and reducing our cost base, we are implementing a voluntary redundancy programme. This will cover 3,000 managers, who we expect to leave the business by the end of September 2000.

BT employs around 11,000 people outside the UK. Around 33,000 people are employed by our joint ventures and associates.

BT is committed to investing in and supporting its people with innovative, leading-edge policies and programmes, creating a working environment which embraces all aspects of diversity and allows people to achieve their real potential. We actively encourage the employment and development of people with disabilities, including those who develop a disability during their career. To help our people balance work and home responsibilities, we have a range of flexible working arrangements in place, including part-time working, job sharing and opportunities for homeworking.

In 1999, BT introduced its Valuing Difference Awards, to recognise and celebrate individuals and teams who are seen as role models in valuing diversity. Externally, BT and its Ethnic Minority Network received a Gold Standard Award in the 1999 British Diversity Awards and was shortlisted for a 1999 Opportunity Now Award. BT continues to be a leading member of the Employer's Forum on Disability, the Employer's Forum on Age, Race for Opportunity and Opportunity Now. We also provide senior executive-level leadership for campaigns run by the Commission for Racial Equality (CRE Leadership

Challenge) and the Equal Opportunities Commission (Equal Pay Task Force). BT sponsors the internet sites for the Employers' Forum on Disability, Employers for Worklife Balance and the National Work/Life Forum.

BT encourages its employees to take up the opportunity to own part of their company and share in its success. There are two main ways for employees to take a stake in the company, the BT Employee Share Ownership Scheme, which this year has set aside £59 million for the allocation of shares to employees, and the BT Sharesave schemes, savings-related share option schemes which allow employees to buy shares at a discount. BT also encourages its people to put forward their suggestions to improve the company, and the very successful BT Ideas scheme generated more than 7,000 suggestions in the year, contributing to around £17 million of savings. We also run an annual employee attitude survey, CARE – Communications and Attitude Research for Employees. Managers and their teams work together to put in place actions necessary to address issues raised.

Most BT employees are members of the BT pension scheme, which is controlled by trustees who are company or union nominees.

An estimated 80,000 of the company's UK employees belong to one of the two trades unions recognised by the company. The pattern of industrial relations in the last few years has been stable, and we continue to have constructive relationships with both unions and to work our way through any problems.

Critical to BT's and its people's success is our commitment to continuous learning and development. During the year, BT achieved re-recognition as a Corporate Investor in People at our first annual review. We spend around £190 million a year on the training and development of our people, providing access to a comprehensive portfolio of technical and commercial training, personal skills, management and executive development. In February, we launched the BT Academy, including the Internet College. The Internet College provides a focus for the transformation of our company into an internet-aware and internet-aligned business, helping our people to gain more knowledge and acquire new skills and confidence with internet-based technology. Opportunities for people to further develop and apply such skills will be enhanced by the restructuring of BT.

Yellow Pages won the European Quality Award for 1999, making it the first BT business to win the Award outright. In addition, BT Northern Ireland was a prize winner and BT Payphones a finalist, making BT the first company ever to have three units selected as finalists for the award.

Property

The group had a property portfolio of approximately 8,000 buildings at 31 March 2000, the majority of which are freehold, located principally throughout the UK. Specialised buildings account for the majority of properties, both in number and book value. They house mainly exchange equipment and are needed as part of the group's continuing activities.

General purpose properties consist chiefly of offices, depots, computer centres and shops. We are engaged in a programme of disposing of surplus and redundant properties of all types from the estate.

The principal categories of BT's plant and equipment are exchanges and transmission equipment. Transmission equipment comprises: copper, fibre and radio access; underground ducts for copper and fibre access; equipment for the trunk network; and cellular and other transmission equipment.

Regulation, competition and prices

The commercial environment in the UK and in the countries in which BT operates or wishes to operate is increasingly competitive and dynamic. However, we remain subject to extensive regulation, particularly in the UK, which can materially affect the way in which the company carries out its business.

Regulation in the UK

The regulatory structure for UK telecommunications is set out principally in the *Telecommunications Act 1984*, which gives regulatory authority to the Secretary of State for Trade and Industry and the Director General of Telecommunications who heads the Office of Telecommunications (Oftel). The Secretary of State and the Director General are required to ensure, as far as reasonably practical, that demand for telecommunication services, including certain community services, is met and to secure the ability of licensed operators to finance the provision of those services. In addition, they are required to promote the interests of consumers, purchasers and other users in the prices, variety and quality of telecommunication services and equipment, and to promote and maintain efficiency and effective competition among the UK telecommunications operators.

With limited exceptions, a licence under the Telecommunications Act is required to operate a telecommunication system and provide telecommunication

services in the UK. The Secretary of State is responsible for issuing licences after consulting the Director General.

The BT Licence

BT operates in the UK under a number of licences, the most important of which is its licence to operate its fixed-linked public telecommunications network (the Licence). The Licence operates until July 2009. The Licence can be revoked at any time on various grounds, including non-compliance with its terms.

The Licence contains terms and conditions designed principally to ensure the provision of widespread telecommunication services in the UK, to protect the interests of consumers and to encourage the development of effective competition in telecommunication services and equipment within the UK.

Under the Licence, BT has to provide voice telephony, low speed data and fax transmission and reasonable access to public call boxes throughout nearly all the UK, including rural areas (the Universal Service Obligation).

Under the Licence, the company must allow other licensed operators to interconnect their telecommunications systems on non-discriminatory terms.

The company must comply with a variety of fair trading obligations, such as:

- a prohibition on showing undue discrimination or unfairly favouring any part of its own business as against competitors on the basis of price or quality of service; and
- a prohibition on the unfair cross-subsidy of certain activities of the company.

BT must publish audited financial statements for the regulated "businesses" and "activities", in order to support the linkage of costs with interconnect prices and with a view to providing demonstrable evidence that BT is neither behaving in a discriminatory fashion nor unfairly subsidising its activities. If it appears to the Director General that an unfair cross-subsidy exists between specified parts of its own business, BT must take such steps as the Director General may direct to remedy the situation. The regulatory businesses for which separated accounts are currently produced are access, apparatus supply, network, retail systems, supplemental services and residual services. In addition, BT will be producing for the first time separated financial statements for its mobile business for the 2000 financial year.

The Licence also contains provisions enabling the Director General to monitor the company's activities, including requirements for BT to supply him with information he requests.

The Licence contains price control formulae, the overall effect of which requires the company to reduce, or restricts the extent to which it can increase, the prices of many of its telephony services to the bulk of the residential market. In addition, the Licence contains certain specific restrictions on the terms on which BT can trade. In particular, the company is required to publish and adhere to standard prices and other terms for providing certain services and, in general, to apply uniformly a published scale of charges for installing residential exchange lines on premises to be served by a single line.

The Director General may make modifications to a licence with the licensee's consent. Alternatively, changes to the licence may be referred to the Competition Commission (CC). In either case, the Telecommunications Act requires public consultation before a licence can be modified.

Licences may also be modified by legislation, including legislation implementing European Commission directives into UK law.

Implementation of Licensing Directives

In September 1999, modifications to the Licence came into force to meet the harmonisation requirements of the European Commission Licensing Directive. The intention of the Directive was to prevent excessive or unjustified regulation through licensing of telecommunications.

The modifications include the removal of restrictions that prevent BT from competing in the conveyance and provision of broadcast visual services to homes.

Competition

Competition Act

In addition to telecommunications industry regulation, BT is subject to general competition law.

The *Competition Act 1998*, which came into effect in March 2000, brings the UK in line with European Community law by prohibiting anti-competitive agreements and concerted practices and the abuse of a dominant market position. It is enforced by the Director General of Fair Trading. In the case of telecommunications, the Director General of Telecommunications has concurrent powers with the Director General of Fair Trading. They have significant new investigative powers. Breach of the prohibitions could lead to fines of up to 10% of UK turnover and/or result in claims for damages in the civil

courts. There are powers to order a company to cease an infringing activity.

There is a new statutory independent appeals mechanism for decisions under the Act.

The competitive environment

The UK telecommunications market is fully open to entry and highly competitive. As a result, HM Government and Oftel have indicated their expectation that it will be appropriate to move away from specific licence-based regulation to greater reliance on the Competition Act.

However, as described above, Oftel currently regulates BT mainly through the provisions in the Licence. BT has commenced discussions with Oftel on amendments that should be made to the Licence to take account of the introduction of the Competition Act.

Although it is some years since the Telecommunications Act abolished the monopoly in telecommunications, obligations placed on BT are generally more onerous than for other licensees. BT believes the separation of the wholesale and retail businesses could allow regulation to be concentrated on the wholesale business and enable the retail business to be regulated in a similar manner to other equivalent businesses.

Pricing regulation

Fixed network

BT is subject to price controls on its fixed-network services in the UK at two levels: retail and network. Competitors are generally not subject to price controls.

Retail price controls

BT is subject to two sets of UK retail price controls, one on certain public switched telephony call charges and exchange line rentals, and one on certain private circuits. Each price control is based on a formula calculated by reference to the UK Retail Prices Index (RPI) and an efficiency factor, X.

For services covered by the controls, weighted average prices cannot increase in each year beginning 1 August by more than the annual change in RPI minus X. In times of low inflation, the overall effect of this control requires the company to reduce its prices.

The retail price control for public switched telephony, applying from August 1997 to July 2001, is RPI minus 4.5. Although it is measured on services used by the lowest 80% of BT's residential customers classified by bill size, controlled prices must be offered to all customers. The price control formula and the company's performance against the formula are set out in the table below.

BT has also given an assurance that a "control" price package will be made available to business customers. The control package for business customers provides that call charges, (which are no higher than the prices used for calculating adherence to the residential price control) and line rental increases will be no more than the change in RPI.

Under the price controls for private circuits, applying from August 1997 to July 2001, prices for analogue and low-speed digital private circuits cannot be increased by more than the change in the RPI in any year. Each discrete international private circuit price is subject to a safeguard cap of RPI.

Network charge control

The company operates under interconnection agreements with most other licensed operators.

A network charge control regime operating until 30 September 2001 gives BT the freedom to set reasonable charges based on long-run incremental costs for its standard interconnection services. Depending on the degree of competition for these services, charges are basket controlled (presently at RPI minus 8), price cap controlled

	Years commencing 1 August				
Price control formula (RPI-X)	1995	1996	1997	1998	**1999**
% RPI movement for the relevant period *(a)*	3.52	2.14	2.94	3.75	**1.35**
X in price control formula *(b)*	7.50	7.50	4.50	4.50	**4.50**
% required reduction in prices *(c)*	(1.38)	(4.92)	(1.56)	(0.73)	**(3.15)**
% reduction in prices overall	(1.82)	(4.92)	(1.56)	(0.73)	**(3.24)***(d)*

(a) Annual increase in RPI to previous June.

(b) From 1 August 1997, the RPI formula covers the main switched telephone services provided to the lowest 80% of BT's residential customers by bill size.

(c) After permitted carry forward of any unused allowance or shortfall from previous years.

(d) Price changes implemented up to 24 May 2000.

(i.e. no increases above RPI), or no longer subject to price controls. Those services Oftel considers unlikely to become competitive in the near future are subject to basket controls; those Oftel considers likely to become competitive are subject to price cap control and those Oftel considers fully competitive services are not subject to price controls.

BT must publish a notification to the Director General and other licensed operators if it intends to amend existing charges or to offer new services.

Review of the price controls

Oftel is currently consulting to determine whether price controls should be extended beyond the present period that ends in 2001, and, if so, what form they should take. This process takes the form of a series of consultations that began in July 1999. Oftel expects to complete the review by December 2000. The BT Board expects to decide by the end of January 2001 whether to accept the proposals or seek a referral to the CC. BT believes the high level of competition that already exists in telecommunications should remove the need for further retail price controls.

If Oftel and BT are unable to agree on future price control arrangements, and the issue is referred to the CC, Oftel may extend the current retail price controls for eight months, and network charge controls for six months, from 31 July 2001 and 30 September 2001, respectively.

Mobile networks

Licence modifications recommended by the CC have led to an initial reduction of about 25% in the price of calls from a BT line to mobile telephones from 30 April 1999 and an effective annual RPI minus 8.5 reduction for a further two years. Specifically, the CC required a reduction in BT's average retention (the amount BT keeps to cover costs and an element of profit after paying a termination charge to the mobile operator completing the call) from 5.8 pence per minute (ppm) to 3.4 ppm for the 2000 financial year.

The CC also recommended that BT Cellnet and Vodafone AirTouch make price reductions on their average termination charges, from 14.8 ppm to 11.7 ppm for the 2000 financial year; this price has come under a price control of RPI minus 9 for two years.

Non-UK regulation

In developing its business internationally, BT must take account of the regulatory regimes in the countries in which it operates or wishes to operate.

United States

In the United States, the Federal Communications Commission has extensive authority to regulate interstate and foreign services and services provided by common carriers, as well as the authority to implement policies that promote competition for all telecommunication services.

European Union

The European Commission is pursuing a policy of progressive liberalisation and harmonisation in telecommunications. Since January 1998, the provision of infrastructure and all telecommunication services was liberalised in the European Union. Specific directives imposed new rules for voice telephony, leased lines and interconnection, with particular emphasis on organisations with significant market power and with a common set of principles for licensing and enforcement. These have largely been implemented in national legislation.
The European Commission reviewed progress during 1999 and is proposing a simplified regulatory framework which will include a more uniform regulatory treatment of different communications technologies and a revision of the concept of significant market power.

Japan

Japan is taking a staged approach to deregulation. Full liberalisation, save a 20% ceiling on foreign ownership in Nippon Telegraph and Telephone Corporation, was implemented in 1998. A move to more effective regulation, especially in the areas of forward-looking costs for interconnection, carrier pre-selection and number portability, is anticipated this year.

In April 2000, the Japanese government invited applications for third generation (3G) mobile licences. In April 2000, J-Phone applied for a 3G licence. The Japanese government is expected to decide on the successful licensees in summer 2000.

Asia Pacific

Many countries in Asia Pacific have either reviewed, or are reviewing, their regulatory frameworks with the aim of liberalising their telecommunications markets. Territories in which BT has major interests, such as Hong Kong, the Republic of Korea and New Zealand, are now largely liberalised. Other countries, such as India and Malaysia, are implementing liberalisation programmes.

In each of these countries, liberalisation is moving in the same direction, but with some important differences depending on the local circumstances. In all of them,

however, key issues are the same, such as regulatory control over the incumbent and charges for interconnection and international access.

BT has worked within each regulatory regime to ensure market access for its international services and for Concert. These are available in all key markets, such as Japan, Australia, China, Hong Kong and India, with more markets added each month.

Rest of the world

The World Trade Organisation's Agreement on Basic Telecommunications signed in February 1997 created a framework for the progressive opening of telecommunications markets in accordance with world trade standards. The agreement provides assurance that commitments made by the 69 participating nations can be legally enforced. However, the commitments themselves provide only limited opportunities in some markets. Detailed implementation schedules are required in many of those countries in which BT has an interest. A further round of World Trade Organisation negotiations on services is due to start later in 2000, although the timetable for its completion is unclear.

Other significant changes and issues

Local loop unbundling

During 1999, Oftel issued two consultation documents to assess the demand for and the potential for competitive supply of broadband services. Oftel issued a policy statement in November 1999. Oftel concluded that, in view of the demand for broadband and BT's position in the local access market, BT's copper local loops should be unbundled. In April 2000, BT consented to a modification to its Licence to require such unbundling, which involves giving competing operators use of the lines connecting BT's local exchanges to its customers.

The modification is due to take effect in July 2001. The policy will be subject to a comprehensive review in 2005 and at two-yearly intervals after that.

Carrier pre-selection

From 1 January 2000, the European Commission required the availability of carrier pre-selection (CPS) from operators with significant market power and number portability at a fixed location between all fixed-network operators. CPS allows customers to opt for certain classes of calls to be carried by an operator selected in advance without having to dial additional access codes.

In order to comply with the European Commission directive, BT was required to provide facilities for CPS from 1 April 2000. Because software changes to BT's local exchanges cannot be achieved before January 2001 (for national and international calls) and January 2002 (for all other calls), it will be provided in the interim by means of auto-diallers on customers' premises. BT is appealing to the courts against a determination by Oftel of the contribution it must make towards the cost of auto-diallers.

HM Government's review of telecommunications and broadcasting regulation

HM Government has initiated a review of telecommunications and broadcasting regulation. HM Government stated it would publish a White Paper later in 2000 proposing regulatory reform concerning the convergence of the communications industries. Measures to change the telecommunications industry regulatory framework, formerly the subject of the Utilities Bill, are expected to fall within the scope of the White Paper. The White Paper is also expected to cover areas such as future regulation of broadcast content, media ownership rules and the role of public service broadcasting.

Mobile services

BT Cellnet operates under its own Mobile Public Telecommunications Operators licence that authorises provision of a range of mobile telecommunications services.

The Director General has decided that BT Cellnet and Vodafone AirTouch have "market influence". As a result, BT Cellnet and Vodafone AirTouch have to allow service providers to access their networks on non-discriminatory terms.

As a pre-condition to eligibility for bidding in the third generation (3G) licence auction, BT Cellnet and other existing second generation (2G) mobile operators were required to agree to amendments to their licences to incorporate a 'roaming condition'. This obliges 2G operators to allow the one new 3G entrant to roam onto their network. The condition will come into effect once this new entrant has rolled out its network in a geographic area where at least 20 per cent of the UK population live.

Operators will be expected to negotiate a roaming agreement. If they are unable to agree, the matter may be referred to the Director General for resolution. The condition will remain in force until 2009.

Universal service

During 1999, BT responded to Oftel's consultation on BT's Universal Service Obligation (USO). BT endorses Oftel's suggestion that at this point BT's USO should not be

extended to cover broadband services. Whilst BT welcomes Oftel's revision of costs and benefits associated with providing universal service, BT believes there is still a significant net cost. BT believes social telephony would be better funded through an industry-wide fund. BT awaits Oftel's conclusions.

Electronic Communications Bill

HM Government aims to promote electronic commerce and electronic government through the introduction of the Electronic Communications Bill. The Bill seeks to promote trust in electronic commerce by laying out an approvals scheme for the licensing of cryptography service providers and ensuring that electronic signatures have legal recognition. The Bill also enables ministers to change existing legislation that requires written signatures. These measures should help to remove legal barriers to the use of electronic signatures, and promote the use of electronic commerce.

Oftel strategy statement

In January 2000, Oftel published a strategy statement proposing to roll back regulation where competition is effective and protects consumers. There will be more industry self-regulation and co-regulation, with a stronger emphasis on preventing anti-competitive practices.

Oftel announced it would conduct major reviews of key telecommunications sectors over the next few years, to see if competition is effective in delivering benefits to consumers and, if so, whether regulation is still necessary.

BT welcomes Oftel's proposed strategy. The communications industry is experiencing change on an unprecedented scale across the globe. BT believes the UK's current regulatory framework does not meet the needs of today's fast-evolving world. BT believes the sector reviews should be frequent enough to allow the regulatory framework to respond appropriately, and should be conducted from a forward-looking perspective. Ad hoc reviews and regulations that lapse after a certain period should also be used to keep regulation to the minimum necessary.

BT supports Oftel's emphasis on self-regulation, which can be an important stage in the transition from traditional regulation to a competition law environment. We have urged Oftel to take early action to put the strategy into practice, in particular by removing conditions from our Licence that are duplicated by the Competition Act.

Domestic obligations in a global market

As a result of BT's growing global interests, a Licence condition prohibits BT from doing anything, by act or omission, that would detract materially from its ability to meet its Licence obligations to provide UK telecommunication services and to do so to any standards specified by the Director General. BT's directors are required to submit an annual compliance certificate to the Director General.

Interconnection product

On 14 April 2000, Oftel issued for public consultation a draft direction under Condition 45 of the Licence that BT should provide an interconnection product for flat rate internet access call origination. The consultation period ended on 19 May 2000. Any final direction is likely to take effect from June 2000.

Relationship with HM Government

HM Government collectively is BT's largest customer, but the provision of services to any one department or agency of HM Government does not comprise a material proportion of BT's revenues. Except as described below, the commercial relationship between BT as supplier and HM Government as customer has been on a normal customer and supplier basis.

BT can be required by law to do certain things and to provide certain services for HM Government. The Licence obliges BT to provide certain services for HM Government departments, such as priority repair of certain telephone lines. In addition, the Secretary of State has statutory powers to require BT to take certain actions in the interests of national security, international relations and the detection of crime.

Legal proceedings

The company does not believe there are any pending legal proceedings which would have a material adverse effect on the financial position or results of operations of the group.

Our commitment to society

Introduction

In realising our vision to be the world's most successful communications company, we recognise that we must take seriously the responsibility that comes with being a company which changes lives.

In BT this responsibility manifests itself in a number of ways – through our community programme, minimising our environmental impacts, contributing to sustainable development, respecting different cultures and those who are disadvantaged or disabled, ensuring our people act with integrity and through the publication of our independently verified, environmental and social reports.

Our success in addressing these issues of corporate responsibility has been widely recognised. During the 2000 financial year, BT was presented with the Business in the Community Company of the Year Award by the Prime Minister, achieved certification to ISO14001, the international environmental management system, for all UK operations, won the Impact on Society award for its UK community programme and was top of the FT-SE 100 companies in the Business in the Environment's annual index of environmental engagement.

BT in the community

BT is committed to a programme of investment in and partnership with external organisations, which helps improve the quality of life and wellbeing of the communities in which we operate around the world as well as building and maintaining the company's reputation.

We were a founder member of the Per Cent Club in 1986. Through our Community Partnership Programme (CPP) we commit a minimum of 0.5% of our UK pre-tax profits to activities in support of society, with non-cash contributions estimated to bring this up to about 1%. Our CPP expenditure has grown from £10 million in 1987 to £15 million in the 2000 financial year, including donations to charity of £1.3 million. No donations were made to any political party.

The Chairman, Sir Iain Vallance, chairs the Community Support Committee which establishes the strategic direction of the BT Community Partnership Programme and authorises the distribution of funds.

Through the BT Friends and Family Chosen Charities Scheme, millions of customers were given the opportunity to donate their discount for one quarter to five charities. Over £0.5 million was raised which was matched by BT. The 1999 BT Swimathon involved nearly 40,000 people and raised over £1.5 million for charities, most of which was donated to Shelter, a charity for the homeless. BT played a key part in helping raise money for charities through major telethons, such as Comic Relief, and helped co-ordinate disaster emergency appeals, including those for Kosovo and Mozambique.

BT continued to give strong support to the community through its people. BT Schoolfriends encouraged over 300 people to develop vital skills during the National Year of Reading.

In addition, over 11,000 BT people participated in Give As You Earn, donating almost £1.4 million. BT contributed £1 million in matched funding.

BT and the Millennium

BT marked the Millennium with an exciting initiative called BT FutureTalk. Its aim is to make a genuine contribution to the lives of everyone in the UK by offering the opportunity to improve their communication skills, including being good at face-to-face conversations as well as successfully using the internet.

The central plank of this programme is BT's sponsorship of the Talk zone at the Dome at Greenwich in London. The Talk zone enables people to experience an amazing journey into the future possibilities of communication. BT FutureTalk is a national initiative and we have joined with the BBC to support FutureWorld, a touring exhibition of the UK, showing dramatic demonstrations of the digital age.

The BT FutureTalk in Education programme – at £4.5 million, our largest community initiative – was launched by Estelle Morris MP, Minister for School Standards. This programme is delivering a drama-based campaign helping children to improve their communication skills to 3,500 schools in the UK by July 2001. These schools are also being helped to develop their own free website, while all schools nationally are encouraged to apply for BT awards for curriculum projects using information and communication technologies.

Environment

The Chief Executive, Sir Peter Bonfield, has Board-level responsibility for environmental matters and, through an appropriate governance structure, ensures that the company minimises its exposure to any potential environmental liabilities, derives financial benefit from energy and waste minimisation programmes and manages its operations in ways that meet relevant legal regulations.

As a result of various assessment processes, which are part of BT's approach to meeting the requirements of the Combined Code on Corporate Governance, the bulk storage of diesel fuel for use in back-up generators at telephone

exchanges has been identified as BT's most significant environmental risk.

Although there are a small number of BT sites where ground remediation is taking place, the cost is not material and so the company declares no material contingent environmental liability in its financial statement. In order to minimise any future liability in this area, we have allocated £18 million to cover tank testing, enhanced maintenance schedules and remedial works.

Some components from old exchange equipment contain polychlorinated naphthalenes. When they require disposal, we exceed our legal obligations and ensure their safe destruction as hazardous waste.

During the 2000 financial year, we have made no purchase of any tangible fixed assets solely on the basis of environmental requirements. However, we often include environmental considerations in the purchase of new equipment, but do not account for these considerations separately.

The main areas of environmental impact associated with BT's operations include energy consumption, waste disposal, transportation and use of ozone-depleting chemicals.

Since 1993, our energy efficiency programme has been accredited to the Energy Efficiency Accreditation Scheme run by the National Energy Foundation. Since 1991, we have reduced our annual energy consumption by over 20%, contributing to a 44% reduction in overall CO_2 emissions, and well ahead of the official global warming targets.

We have an extensive programme for recycling and recovering materials, including metal from redundant exchange units, cables, toner cartridges, office paper and electronic waste. In the 2000 financial year, we received gross income from our recycling activities of £9.6 million, which was offset against the £7 million we spent on our recycling activities and the £6 million spent sending 103,900 tonnes of waste to landfill. We are also continuing to reduce the amount of waste generated, with waste to landfill down 5.6% compared with the figures for the 1999 financial year.

E-mail and the BT intranet are helping us reduce the amount of paper we use and, during the 2000 financial year, we realised a reduction of 13.12% (1,834 tonnes) of paper. This year, by printing on both sides of the paper used for telephone bills, we will save over 150 million sheets of paper.

We use CFCs in a small number of refrigeration systems and halons for fire extinguishing. We plan to comply fully with the proposed new legislation surrounding the use of CFCs and currently have plans in place to eliminate the use of halons for fire extinguishing well in advance of any legal requirements.

Our operational fleet of around 38,000 vehicles, one of the largest in the UK, has been reduced by 26% over the past eight years. There has been a corresponding 30% reduction in fuel consumption. We also aim to reduce our transport related environmental impacts in other ways. For example, nearly 3,000 BT employees no longer have a fixed office location, primarily working from home.

Stewart Report

We recognise public concern about possible health effects arising from radiowaves emitted by wireless equipment such as cellular base stations and mobile telephones. We welcome the report of the Independent Expert Group on Mobile Phones, chaired by Sir William Stewart, and commissioned by HM Government's Department of Health. The report, published in May 2000, concluded that 'the balance of evidence does not suggest that mobile phone technologies are a risk to health', but made a number of recommendations, including further research, a precautionary approach to the use of mobile phones by children, and changes to planning rules on siting of masts. The health and safety of our customers, employees, and the general public is very important to us, and we are committed to working with HM Government and the rest of the industry to address these issues.

Older or disabled customers

Through our Age and Disability Unit, we pay special attention to the needs of our more vulnerable customers.

We support Typetalk, a service that allows people with hearing difficulties to use the phone. We provide a free priority fault repair service for housebound people, special equipment such as telephones with large buttons and amplification for people who need help using the telephone, and supply bills and other information in alternative formats, such as Braille and large print for those who find it difficult to read standard text.

Further details can be found in our Guide for Older or Disabled People at www.bt.com/world/community/aged_and_disabled.

Future objectives

In all matters of social responsibility, we are working to involve our operations outside the UK.

In 1999, we updated our statement of business practice, *The Way we Work*, to make it more relevant to the global marketplace. During the 2001 financial year, we will be extending both our community programme and our environmental management systems outside the UK.

In June 2000, we will publish our annual environmental performance report. In June 2001, we shall integrate all our non-financial reporting into a single document.

For more information, visit www.bt.com/world/society

Five-year financial summary

Profit and loss account

Years ended 31 March	1996 £m	1997 £m	1998 £m	1999 £m	**2000 £m**
Total turnover – ongoing activities	14,470	15,021	16,039	18,223	**21,903**
– discontinued activities	2,066	2,358	1,372	–	**–**
Total turnover, including discontinued activities	16,536	17,379	17,411	18,223	**21,903**
Group's share of associates' and joint ventures' turnover	(2,090)	(2,444)	(1,771)	(1,270)	**(3,364)**
Trading between group and principal joint venture	–	–	–	–	**176**
Group turnover – ongoing activities	14,446	14,935	15,640	16,953	**18,715**
Other operating income *(a)*	103	106	372	168	**242**
Operating costs *(b)(c)(d)*	(11,449)	(11,796)	(12,355)	(13,305)	**(15,359)**
Group operating profit	3,100	3,245	3,657	3,816	**3,598**
Group's share of operating profit (loss) of associates and joint ventures	101	184	(196)	(342)	**(400)**
Total operating profit:					
Ongoing activities	3,081	3,209	3,436	3,474	**3,198**
Discontinued activities	120	220	25	–	**–**
	3,201	3,429	3,461	3,474	**3,198**
Profit on sale of fixed asset investments and group undertakings *(e)*	7	8	63	1,107	**126**
Net interest payable	(189)	(174)	(310)	(286)	**(382)**
Premium on repurchase of bonds	–	(60)	–	–	**–**
Profit on ordinary activities before taxation	3,019	3,203	3,214	4,295	**2,942**
Tax on profit on ordinary activities:					
Corporation and similar taxes	(1,027)	(1,102)	(977)	(1,293)	**(897)**
Windfall tax	–	–	(510)	–	**–**
Profit on ordinary activities after taxation	1,992	2,101	1,727	3,002	**2,045**
Minority interests	(6)	(24)	(25)	(19)	**10**
Profit for the financial year	1,986	2,077	1,702	2,983	**2,055**
Basic earnings per share	31.6p	32.8p	26.6p	46.3p	**31.7p**
Diluted earnings per share	31.0p	32.2p	26.2p	45.3p	**30.9p**
Dividends per share (including 1997 special dividend of 35p)	18.7p	54.85p	19.0p	20.4p	**21.9p**
Profit before goodwill amortisation, exceptional items and taxation	3,019	3,203	2,976	3,274	**3,100**
Basic earnings per share before goodwill amortisation and exceptional items	31.6p	32.8p	31.7p	35.0p	**34.2p**
Diluted earnings per share before goodwill amortisation and exceptional items	31.0p	32.2p	31.2p	34.2p	**33.4p**
(a) Including MCI merger break-up fee net of expenses in 1998	–	–	238	–	**–**
(b) Including redundancy charges	421	367	106	124	**59**
(c) Including exceptional costs relating to the disengagement from MCI	–	–	–	69	**64**
(d) Including exceptional costs relating to the proposed closure of the BT Cellnet analogue network in 2000	–	–	–	–	**47**
(e) Including gain on MCI shares sold in 1999	–	–	–	1,133	**–**

Five-year financial summary

Cash flow statement

Years ended 31 March	1996 £m	1997 £m	1998 £m	1999 £m	**2000 £m**
Cash flow from operating activities	5,829	6,185	6,071	6,035	**5,849**
Dividends from associates and joint ventures	5	7	5	2	**5**
Returns on investments and servicing of finance	(150)	(220)	(160)	(328)	**(163)**
Taxation	(784)	(1,045)	(1,886)	(630)	**(1,311)**
Capital expenditure and financial investment	(2,500)	(2,820)	(3,108)	1,046	**(3,752)**
Acquisitions and disposals	(132)	(252)	(1,501)	(1,967)	**(6,405)**
Equity dividends paid	(1,138)	(1,217)	(3,473)	(1,186)	**(1,364)**
Cash inflow (outflow) before management of liquid resources and financing	1,130	638	(4,052)	2,972	**(7,141)**
Management of liquid resources	(1,317)	(504)	2,247	(2,447)	**1,236**
Financing	215	(224)	1,794	(458)	**5,959**
Increase (decrease) in cash for the year	28	(90)	(11)	67	**54**
Decrease (increase) in net debt for the year	1,319	849	(3,860)	3,146	**(6,582)**

Balance sheet

At 31 March	1996 £m	1997 £m	1998 £m	1999 £m	**2000 £m**
Intangible fixed assets	–	–	–	742	**5,777**
Tangible fixed assets	16,496	16,802	17,252	17,854	**18,163**
Fixed asset investments	1,057	1,273	1,708	1,832	**5,878**
Net current liabilities	(106)	(2,667)	(2,637)	(495)	**(7,115)**
Total assets less current liabilities	17,447	15,408	16,323	19,933	**22,703**
Loans and other borrowings falling due after one year	(3,322)	(2,693)	(3,889)	(3,386)	**(5,354)**
Provisions for liabilities and charges	(1,267)	(1,391)	(1,426)	(1,391)	**(1,056)**
Minority interests	(180)	(208)	(223)	(216)	**(498)**
Total assets less liabilities	12,678	11,116	10,785	14,940	**15,795**
Total equity shareholders' funds	12,678	11,116	10,785	14,940	**15,795**
Total assets	23,536	25,062	23,285	27,962	**37,588**

US GAAP

Years ended 31 March	1996 £m	1997 £m	1998 £m	1999 £m	**2000 £m**
Income before taxes	2,774	3,326	2,791	3,745	**2,096**
Net income	1,806	2,149	1,447	2,589	**1,393**
Basic earnings per ordinary share	28.8p	33.9p	22.7p	40.2p	**21.5p**
Diluted earnings per ordinary share	28.4p	33.6p	22.3p	39.3p	**21.0p**
Basic earnings per ADS	£2.88	£3.39	£2.27	£4.02	**£2.15**
Diluted earnings per ADS	£2.84	£3.36	£2.23	£3.93	**£2.10**
At 31 March					
Total assets	26,183	27,239	27,951	29,323	**38,481**
Ordinary shareholders' equity	13,010	11,588	12,615	13,674	**13,634**

Financial review

Please see cautionary statement regarding forward-looking statements on page 116.

Introduction

BT's earnings of 31.7 pence per share for the year ended 31 March 2000 (the 2000 financial year) compare with 46.3 pence for the 1999 financial year and 26.6 pence for the 1998 financial year. Exceptional items have affected earnings in each of these years and goodwill amortisation in the last two years. Of the earnings in the 2000 financial year, 0.1 pence per share represented net exceptional income. In the 1999 financial year, net exceptional income amounted to 11.6 pence per share mainly relating to the sale of the group's investment in MCI Communications Corporation in September 1998. Earnings for the 1998 financial year were affected by net exceptional charges of 5.1 pence per share, relating to the windfall tax, partially offset by a fee received relating to the termination of the then-planned BT/MCI merger. Goodwill amortisation, on acquisitions completed after 1 April 1998 when BT adopted the new UK financial reporting standard on goodwill (FRS 10), adversely affected earnings by 2.6 pence per share in the 2000 financial year and by 0.3 pence per share in the 1999 financial year. Before goodwill amortisation and exceptional items, earnings of 34.2 pence per share for the 2000 financial year compare with an equivalent 35.0 pence and 31.7 pence for the 1999 and 1998 financial years, respectively.

The results for the 2000 financial year reflect the adverse effect which competitive pressures have had on our operating margins in the UK fixed-voice telephony and mobile markets. The results also reflect the costs of meeting increased customer demand, particularly for mobile communications, and of growing new areas of business. In both the 2000 and 1999 financial years, BT benefited from the strong growth in demand for the group's products and services. Internet and mobile phone usage expanded rapidly and this led to increased turnover and, in the 1999 financial year, increased profit. In the 2000 and 1998 financial years, the buoyant UK economy had a beneficial effect on the results. Our ventures in North America, continental Europe and Asia Pacific which we have established, or in which we have acquired interests, in the past three years, are contributing significantly to our turnover growth. However, the initial losses incurred by many in their development stages are, as anticipated, adversely affecting the group's results. We continue to be affected by the tight regulatory regime in the UK. Price reductions, including those imposed by the price control formulae, totalled approximately £550 million in the 2000 financial year, following reductions of approximately £500 million in the 1999 financial year and over £750 million in the 1998 financial year.

In early January 2000, Concert, our global venture 50/50 owned with AT&T, was established. Concert has taken over a major part of our international communications activities and is managing the

	2000 £m	1999 £m	1998 £m
Total turnover – ongoing	**21,903**	18,223	16,039
Group's share of ventures' turnover – ongoing	**(3,364)**	(1,270)	(399)
Trading between group and principal joint venture	**176**	–	–
Group turnover – ongoing	**18,715**	16,953	15,640
Other operating income	**242**	168	372
Operating costs	**(15,359)**	(13,305)	(12,355)
Group operating profit	**3,598**	3,816	3,657
Group's share of ventures' losses	**(400)**	(342)	(196)
Total operating profit	**3,198**	3,474	3,461
Profit on sale of fixed asset investments and group undertakings	**126**	1,107	63
Net interest	**(382)**	(286)	(310)
Profit before taxation	**2,942**	4,295	3,214
Taxation – ordinary	**(897)**	(1,293)	(977)
– windfall	**–**	–	(510)
Profit after taxation	**2,045**	3,002	1,727
Minority interests	**10**	(19)	(25)
Profit for the financial year	**2,055**	2,983	1,702
Basic earnings per share	**31.7p**	46.3p	26.6p
Profit before goodwill amortisation, exceptional items and taxation	**3,100**	3,274	2,976
Basic earnings per share before goodwill amortisation and exceptional items	**34.2p**	35.0p	31.7p

communication needs of a number of our multinational corporate customers. It also acquired the Concert Communications Services group (Concert Communications) from BT. As a consequence, for the last quarter of the 2000 financial year, certain of the group's former turnover is now reported as part of our proportionate share of our joint ventures' turnover. We have revised our main turnover analysis of products and services to reflect these changes. Total operating profit, including our share of ventures' results, has not been significantly affected by the formation of the venture. Also in the 2000 financial year, BT took a 30% interest, jointly with AT&T, in Japan Telecom, acquired the remaining 40% interest in BT Cellnet which it did not already own, and acquired control of Esat Telecom Group, a leading Irish communications group.

In the 1999 financial year, the group's interest in MCI, held since 1994, was sold on the completion of the MCI/WorldCom merger. We recognised a pre-tax profit of £1,133 million on this sale; this followed the £273 million fee we received in November 1997 on the announcement of their agreed merger, as compensation for the break-off of the merger we had planned with MCI. We ceased equity accounting for MCI as an associate on 31 October 1997. At the same time as we disposed of our interest in MCI in September 1998, we acquired the minority interest owned by MCI in Concert Communications.

Regulation and prices

BT has been operating under the existing retail price control from 1 August 1997, under which a cap of RPI minus 4.5 applies to the services used by the lowest 80% of BT's residential customers by bill size. This retail price control is estimated to have covered services representing about 16% of the group's turnover for the 2000 financial year. In the current price control year to 31 July 2000, BT has already reduced its prices by 3.24%, which is more than the required reduction of 3.15%. The equivalent reduction in the previous control year was 0.73%.

Most of BT's interconnect (network) charges to other UK operators are based on long-run incremental costs. There are annual reductions in these charges based on a RPI minus 8 price cap.

The Competition Commission (CC) required BT to reduce charges from a BT line to mobile phones by around 25% in the 2000 financial year and an effective annual RPI minus 8.5 reduction for a further two years.

The regulatory environment in the UK has had, and will continue to have, a significant adverse impact on the group's turnover and operating profit. As the group has extended its activities to other countries, BT is required to consider the regulatory regimes in those countries.

Competition and the UK economy

BT has a significant market share in its main UK markets for fixed-network calls and provision of exchange lines. Competition has eroded BT's market share significantly in key market sectors, in particular areas of the UK and for certain products and services. We estimate that BT had 64% of the market for national calls in the 2000 financial year, compared with 69% and 75% in the 1999 and 1998 financial years, respectively, and supplied 84% of the exchange lines in the UK at 31 March 2000, compared with 86% and 87% at 31 March 1999 and 1998, respectively. Additionally, we estimate that BT had 73% of the market for local calls in the 2000 financial year, compared with 78% and 84% in the 1999 and 1998 financial years, respectively.

The growth in cable operators' networks in the UK is having an adverse effect on BT's share of the residential market. In each of the last five financial years, BT has experienced a small net reduction in residential exchange line connections as a result of increasing competition from these cable operators in certain geographic areas. This small rate of reduction is expected to continue as they complete building out their networks.

In an environment of strong competition, BT Cellnet had 27% of the market based on the number of customer connections at 31 March 2000, compared with 30% at 31 March 1999 and 34% at 31 March 1998. There has also been a downward pressure on prices.

The group has seen some diversion of demand from its fixed network as a result of the growth of other licensed operators' activities. This diversion might intensify now that BT's fixed-line customers are able to pre-select their carrier, as required under a European Commission directive, from 1 April 2000.

Additionally, BT's Licence was amended in April 2000 to require BT to provide other operators with use of the lines connecting BT's local exchanges to its customers and allow operators to install equipment in BT's exchanges (local loop unbundling). This amendment is due to take effect in July 2001. This could result in further intensification of competition and have an adverse effect on BT's results.

For its operations as a whole, BT expects the competitive pressure to persist and it will continue to defend its market share vigorously and fairly.

The strength of the UK economy is an important determinant of BT's business volumes and the gross

domestic product grew by 2.9% in the 2000 financial year, compared with 1.5% and 2.8% in the 1999 and 1998 financial years, respectively.

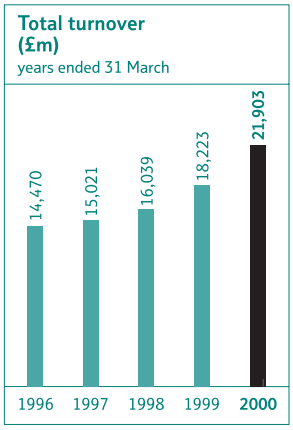
Restructuring

BT announced in April 2000 that it was restructuring its operations, separating the UK fixed-network business into two divisions and forming four new global businesses to operate and manage BT's broadband, internet, mobile and directories businesses. This is explained in more detail in the *Business Review* and in the section of this review on segmented information on page 39. Since this reorganisation will not be completed until later in the 2001 financial year, full financial information is not yet available for these new divisions and businesses. The discussion of our results which follows therefore centres around the consideration of BT's turnover and costs as a whole.

Turnover

Total turnover in the 2000 financial year of £21,903 million includes BT's proportionate share of its ventures' turnover of £3,364 million before adjusting for trading between the Concert joint venture and the BT group. This total turnover grew by 20.2% in the 2000 financial year after growing by 13.6% in the 1999 financial year compared with the total turnover from on-going activities in the 1998 financial year. The 1998 financial year also included BT's share of MCI's turnover, while it was BT's associate, of £1,372 million. BT's acquisitions of businesses and interests in new ventures in North America, Europe and Asia Pacific, including Concert from January 2000, accounted for around a half of the increase in total turnover in the 2000 financial year and a third of the increase in the 1999 financial year.

Group turnover, excluding the ventures, grew by 10.4% to £18,715 million in the 2000 financial year after growing by 8.4% in the 1999 financial year compared with the 1998 financial year. Acquisitions in the 1999 and 2000 financial years contributed about 25% of the growth in group turnover in the 2000 financial year. The strong growth in demand for the group's products and services of approximately 11% in the 2000 financial year and approximately 12% in the 1999 financial year was partially offset by the effect of price reductions which averaged approximately 3% across the business in both the 1999 and 2000 financial years. Both mobile calls and interconnect receipts in the UK made strong contributions to the growth in group turnover in the 2000 financial year, as a result of the significant growth in BT Cellnet's mobile customer base and increased mobile usage. In the 1999 financial year, the increase in mobile and fixed-network calls contributed to the growth in group turnover.



The group's ongoing turnover is analysed as follows:

	2000 £m	1999*(a)* £m	1998*(a)* £m
Fixed-network calls	**5,908**	6,026	5,788
Exchange lines	**3,526**	3,351	3,190
Mobile communications	**2,170**	1,400	1,089
Receipts from other operators	**1,974**	1,417	1,249
Private services	**1,135**	1,140	1,131
Customer premises equipment supply	**847**	870	896
Yellow Pages and other directories	**642**	491	466
Other sales and services	**2,513**	2,258	1,831
Group turnover	**18,715**	16,953	15,640
Share of ventures' turnover	**3,364**	1,270	399
Trading between group and principal joint venture	**(176)**	–	–
Total turnover	**21,903**	18,223	16,039

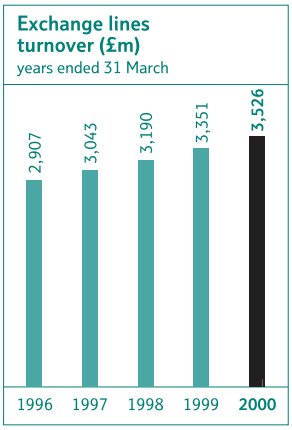
(a) Figures for the 1998 and 1999 financial years have been restated to conform with the method of classification used in the 2000 financial year.

Turnover from fixed-network calls declined by 2.0% to £5,908 million in the 2000 financial year after growing by 4.1% in the 1999 financial year compared with the 1998 financial year. Fixed-network calls comprise all calls by customers made from fixed lines in the UK, including outbound international calls. In the 2000 financial year, call volume growth was more than offset by the effect of significant price reductions in contrast to the previous year where the price reductions were outweighed by the effect of strong volume growth.

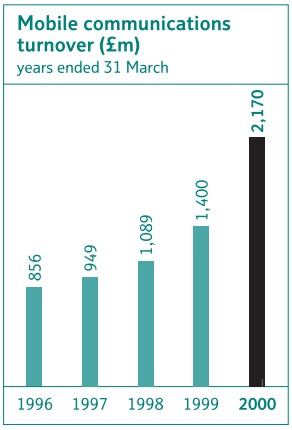
Price reductions had an impact on turnover from fixed-network calls for all the years under review. In the 2000 financial year, the principal reduction was the 25% cut in fixed to mobile call prices from the end of April 1999 as required by the CC. Other reductions included enhanced discounts and lower ***Freefone*** and ***Lo-call*** prices charged to other service providers. In the 1999 financial year, the main reductions related to lower prices charged to service providers and lower national and fixed to mobile call

prices. The combined effect of the price changes to fixed-network calls totalled over £530 million in the 2000 financial year, which was equivalent to a 9% reduction in call prices following falls of 3% and 6% in the previous two years.

The main volume growth in fixed-network calls in the 2000 financial year was derived from a significant increase in calls to mobile phones and the increased use of the internet. In the 1999 financial year, similar factors were also behind the increase in calls over BT's fixed-network, particularly in the second half of that year. The call volume growth of 7% in the 2000 financial year was at the same level as that in the 1999 financial year. While internet-related local calls are growing very strongly, traditional fixed-network local calls are declining in volume, which we attribute partly to mobile phone substitution and also to intense competition. We expect this trend to continue.



Turnover from exchange lines grew by 5.2% in the 2000 financial year to £3,526 million after increasing by 5.0% in the 1999 financial year. The increased turnover was the combined result of the growth in business lines and rental price increases. The number of business lines grew by 5.9% in the 2000 financial year and by 6.1% in the 1999 financial year, with ISDN services being the main driver behind this growth. The numbers of residential lines declined slightly in both years due to the competition from cable operators largely offset by the high number of BT customers installing second lines. Overall, BT's total fixed-network lines grew by 1.6% in the 2000 financial year to 28.5 million and by 1.4% in the 1999 financial year to 28.1 million.

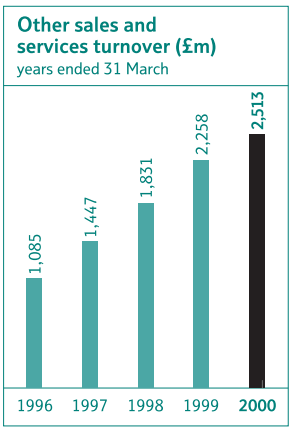


Mobile communications turnover, mainly comprising calls charged to and subscriptions from customers, increased by 55% in the 2000 financial year to £2,170 million, following growth of 29% in the previous financial year. Nearly half of the increase in turnover in the 2000 financial year was contributed by the BT Cellnet Lumina (formerly Martin Dawes Telecommunications) and DX Communications businesses acquired in 1999. Otherwise, the turnover increases in the 2000 and 1999 financial years reflected the 64% and 47% growth in BT Cellnet's customer-base in the two years, respectively, offset by the effect of reductions in mobile call prices. Nearly 2.9 million new customers were connected to BT Cellnet's network in the 2000 financial year, following the 1.4 million connected in the 1999 financial year, substantially due to the success of the "pre-paid" mobile phone introduced in the second half of the 1999 financial year. BT Cellnet has continued to attract significant numbers of customers on post-pay contracts. BT Cellnet had 7.4 million customer connections at 31 March 2000, of which over half were on a post-paid contract basis.

Turnover from receipts from other operators for interconnect charges increased from £1,249 million in the 1998 financial year to £1,417 million in the 1999 financial year and to £1,974 million in the 2000 financial year. This turnover mainly comprises the income BT generates from other UK operators for passing calls from one operator to another and for terminating calls on BT's network. It also includes receipts from international operators for incoming international and transit calls which BT received before this activity was transferred to Concert in early January 2000. From that date, this turnover includes receipts from Concert for terminating incoming calls into the UK and handling Concert's UK multinational customer domestic traffic. The increases in turnover, in the 2000 and 1999 financial years, primarily reflect the growing market share of BT's UK competitors, particularly mobile phone operators, and the increasing level of traffic flowing through and into BT from their networks. There has been a large corresponding increase in the payments made by BT to these operators for traffic passing to their networks. Although growth has been rapid, with volumes growing at 38% for the 2000 financial year, and 34% for the 1999 financial year, BT's interconnect business does not provide us with the same overall level of margin as our UK retail business.

Private services turnover, at £1,135 million in the 2000 financial year, has remained broadly static over the three years under review. Demand for digital private circuit services continued at a high level in all three years, supported by a significant migration from analogue circuits. Price reductions, however, have prevented any significant change in turnover over the three financial years.

BT's Yellow Pages and other directory businesses include the Yellow Book USA business acquired in August 1999. Turnover of £642 million has grown by 31% in the 2000 financial year, of which two thirds is due to this acquisition. The UK business has grown by about 9%, partly reflecting the good growth in the economy. In the 1999 financial year, turnover grew by 5.4%, due mainly to an increased volume of advertising in the UK.



Turnover from BT's other sales and services has grown by 11.3% in the 2000 financial year to £2,513 million after growing by 23% in the 1999 financial year. Much of the growth in both financial years is attributable to the BT Syncordia Solutions outsourcing business and Syntegra, which provides systems integration services, both in the UK and worldwide. Videoconferencing, and broadcasting and other multimedia services also contributed strongly to the growth in turnover. This category also included sales by Concert Communications up to early January 2000 before its transfer to the new Concert joint venture.

BT's share of its ongoing ventures' turnover rose from £399 million in the 1998 financial year to £1,270 million in the 1999 financial year and to £3,364 million in the 2000 financial year, including sales by the ventures to BT. This growth was due to our establishment and acquisition of interests in ventures in North America, Europe and Asia Pacific over the past three years. Acquisitions of interests in the 2000 financial year contributed £1,228 million of the growth. In the 2000 financial year, £3,164 million of the total arose from ventures located outside the UK, compared with £1,149 million in the 1999 financial year and £333 million in the 1998 financial year. The principal contributors in the 2000 financial year were Cegetel (£727 million), Concert (£583 million from January 2000), Japan Telecom (£501m from September 1999), Viag Interkom (£296 million), Airtel (£250 million) and a full year's contribution from LG Telecom (£200 million). In the 1999 financial year, the main contributors were Cegetel (£578 million), Airtel (£157 million), Viag Interkom (£82 million) and LG Telecom (£81 million from October 1998). In the 1998 financial year, the main contributor was Cegetel (£185 million from September 1997).

Other operating income

As part of the arrangements for the establishment of Concert, BT has been seconding staff and providing administrative and other services from its launch in early January 2000. The income from these services totalled £79 million in the 2000 financial year. Concert will be setting up its own administration during the course of 2000. In the 1998 financial year, BT received US$465 million as the break-up fee and partial reimbursement of expenses incurred under the BT/MCI merger agreement. This receipt, net of relevant expenses incurred in that financial year, was included as an exceptional profit of £238 million in other operating income for that year.

Operating costs

Total operating costs increased by 15.4% in the 2000 financial year to £15,359 million after increasing by 7.7% in the 1999 financial year. As a percentage of group turnover, operating costs, excluding goodwill amortisation, decreased from 79.0% in the 1998 financial year to 78.5% in the 1999 financial year but increased to 81.6% in the 2000 financial year. In the 2000 and 1999 financial years, exceptional costs of £111 million and £69 million were incurred, respectively, which primarily related to Concert Communications' disengagement from MCI and the proposed closure of BT Cellnet's analogue cellular phone network. These exceptional costs are considered separately in the table below and the discussion which follows.

	2000 £m	1999 £m	1998 £m
Staff costs	**4,283**	3,871	3,917
Own work capitalised	**(498)**	(428)	(424)
Depreciation	**2,704**	2,568	2,395
Goodwill amortisation	**89**	–	–
Payments to telecommunication operators	**3,068**	2,106	1,600
Other operating costs	**5,602**	5,119	4,867
Total operating costs before exceptional costs	**15,248**	13,236	12,355
Exceptional costs	**111**	69	–
Total operating costs	**15,359**	13,305	12,355

Staff costs increased by 10.6% in the 2000 financial year to £4,283 million, after rising by 1.9% in the 1999 financial year, if a non-recurring charge in the 1998 financial year is excluded. In the 2000 financial year, the numbers employed in the group increased by 12,100 to 136,800 at 31 March 2000. This net increase included 5,000 individuals employed outside the UK mainly through acquisitions,

2,500 former agency workers now working for BT, and around 4,500 people needed in the UK to meet increased demand and to roll out the ADSL broadband product. These increases and the impact of pay awards caused the increase in staff costs in the 2000 financial year. In the 1999 financial year, the impact of pay awards was partially offset by reduced overtime worked and a reduction in average employee numbers. Staff costs for the 1998 financial year included a non-recurring charge of £120 million for compensation for a special dividend paid in that year. This compensation was for those employees holding unexercised rights, mainly under group-wide sharesave schemes.

The allocation for the employee share ownership scheme, included within staff costs, was £59 million in the 2000 financial year. This represents 2% of the pre-tax profit for the year. The allocation for the 1999 financial year of £64 million represented 2% of pre-tax profit for that year, before the gain on the sale of MCI shares. The allocation in the 1998 financial year was also £64 million and represented 2% of pre-tax profit for that year.

The depreciation charge increased by 5.3% in the 2000 financial year to £2,704 million after increasing by 7.2% in the 1999 financial year, reflecting BT's continuing high level of investment in its networks.

Goodwill amortisation in respect of subsidiaries and businesses acquired since 1 April 1998, when BT adopted FRS 10, amounted to £89 million in the 2000 financial year. Of the total, £50 million relates to the BT Cellnet minority acquisition in November 1999.

Payments to other telecommunication operators grew by 46% in the 2000 financial year to £3,068 million after increasing by 32% in the 1999 financial year. The growth in these payments was primarily as a result of the growing number of calls originating on or passing through BT's networks and terminating on UK competitors' fixed and mobile networks. This is due, in particular, to the increase in mobile phone usage and internet-related calls. The payments include those made to Concert for the delivery of BT's outgoing international calls from early January 2000 and those made by BT to international operators for outgoing and transit calls prior to that time. Also included are payments made to mobile phone operators on behalf of BT Cellnet Lumina and DX Communications' customers.

Other operating costs, which rose by 9.4% in the 2000 financial year to £5,602 million and by 5.2% in the 1999 financial year, include the maintenance and support of the networks, accommodation and marketing costs, the cost of sales of customer premises equipment and redundancy costs. The costs incurred in supporting the high growth of BT Cellnet was the main factor behind the increase in costs in the 2000 and 1999 financial years. Also, in the 1999 financial year, a currency gain of £87 million from investing the proceeds of the MCI shares was offset against these costs.

Redundancy costs of £59 million were incurred in the 2000 financial year, compared with £124 million in the 1999 financial year and £106 million in the 1998 financial year. The redundancy costs in the 2000 financial year include £32 million for the costs of the initial 1,100 of 3,000 managers taking early voluntary release as part of BT's plans to improve efficiency. These 3,000 managers are due to leave BT by the end of September 2000. In view of a pension fund surplus, which for accounting purposes includes the provision for pension costs in the group's balance sheet, and in accordance with BT's accounting policies, redundancy charges for the three financial years 2000, 1999 and 1998 do not include the costs of the incremental pension benefits provided to early retirees, which totalled £140 million, £279 million and £224 million, respectively.

From the time Concert Communications became wholly owned by BT in September 1998, work has been undertaken to ensure that the group's business became fully independent of MCI. The costs involved in this work were £64 million incurred in the 2000 financial year and £69 million in the 1999 financial year. These costs are shown as exceptional items in the group profit and loss account. The costs for the 2000 financial year include £47 million for the proposed exit of BT Cellnet's analogue network. All remaining customers on the network are being invited to move to BT Cellnet's GSM digital network.

Group operating profit

Group operating profit for the 2000 financial year of £3,598 million was £218 million lower than in the previous year, which was £159 million higher than in the 1998 financial year. Before goodwill amortisation, the exceptional costs in the 2000 and 1999 financial years and the exceptional income in the 1998 financial year, described above, group operating profit in the 2000 financial year was 2.2% lower than in the 1999 financial year. This, in turn, was 13.6% higher than that in the 1998 financial year. The reduction in profit in the 2000 financial year was caused by reduced call prices, increased lower margin wholesale business with other operators, the cost of developing new products and areas of business and increased expenditure on improving the quality of service to our customers. We expect these factors to continue. The increase in profit in the 1999 financial year was due to the

strong growth in demand for the group's products and services, particularly as a result of internet and mobile phone usage.

Associates and joint ventures

The group's share of its ventures' operating losses totalled £316 million in the 2000 financial year, before £84 million goodwill amortisation. The comparable losses, before goodwill amortisation, amounted to £325 million in the 1999 financial year and £221 million in the 1998 financial year, excluding MCI's results. The principal loss in all three years arose in Viag Interkom in developing its networks to compete in the German market. BT's share of these losses was £240 million, £193 million and £151 million in the 2000, 1999 and 1998 financial years, respectively. Telfort also incurred losses in all three years as it has been developing its fixed and mobile networks in the Netherlands. In the 2000 financial year, other losses were mainly incurred by British Interactive Broadcasting (BIB) in the UK and Albacom in Italy. BIB launched its new Open interactive digital TV service in the UK in autumn 1999 after a period of development. Ventures returning operating profits in the 2000 financial year included Concert, Airtel in Spain, Cegetel in France, Japan Telecom and Maxis Communications in Malaysia. In the 1999 financial year, the other losses were incurred by Albacom, BIB and LG Telecom in the Republic of Korea, which has been a BT joint venture since October 1998. In the 1998 financial year, other losses were principally those incurred by Cegetel in France, which has been a BT associate since September 1997.

As a consequence of the termination of the BT/MCI merger agreement and the then-prospective MCI/WorldCom merger, BT ceased treating MCI as an associate on 31 October 1997. The group's pre-tax profit for the 1998 financial year incorporated a loss of £27 million, representing BT's share of MCI's results up to that date, which included a special charge of £63 million.

Total operating profit

Total operating profit for the 2000 financial year at £3,198 million, including BT's share of the operating results of its ventures, decreased by £276 million compared with the 1999 financial year after increasing by £13 million over the 1998 financial year. Before goodwill amortisation and exceptional items, total operating profit for the 2000 financial year was 2.2% lower than that in the previous financial year, which was 10.5% higher than the result for the 1998 financial year. The fall in total operating profit in the 2000 financial year and the rise in profit in the 1999 financial year were due to the factors explained above. After taking into account our share of Concert's operating profit, total operating profit in the 2000 financial year has not been significantly affected by the formation of Concert.

Profit on sale of fixed asset investments

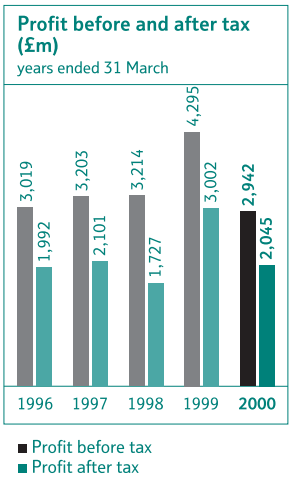
Following the completion of the MCI/WorldCom merger in September 1998, BT sold its holding in MCI to WorldCom under the agreement made in November 1997. The proceeds totalled £4,159 million on which an exceptional profit of £1,133 million was realised in the 1999 financial year, after taking into account the goodwill written off on BT's interest in MCI, originally acquired in September 1994.

Interest charge

In the 2000 financial year, the group's net interest charge at £382 million was £96 million higher than in the preceding year. The higher charge is due to an increase in BT's share of its ventures interest costs and the cost of funding the acquisitions made by BT during the 2000 financial year, including the BT Cellnet minority acquisition. In the 1999 financial year, the group's net interest charge at £286 million was £24 million lower than in the preceding year. The group benefited in that year from the interest derived from the short-term investments funded with the MCI share sale proceeds. Interest cover for the 2000 financial year represented 8.8 times total operating profit before goodwill amortisation and compares with interest cover of 12.2 in the 1999 financial year and 11.2 in the 1998 financial year. We expect the net interest charge to increase in the 2001 financial year following the significant increase in net debt during the 2000 financial year.

Profit and taxation

The group's profit before taxation for the 2000 financial year was £2,942 million, compared with £4,295 million in the 1999 financial year and £3,214 million in the 1998 financial year. The higher profit in the 1999 financial year was due substantially to the gain on the MCI shares sold. Before exceptional items and goodwill amortisation, profit before taxation in the 2000 financial year was 5.3% lower than the comparable profit in the 1999 financial



year. This was 10.0% higher than in the 1998 financial year. The lower profit in the 2000 financial year was due to the lower group operating profit and higher interest charges, explained above.

The tax charge of £897 million for the 2000 financial year as a percentage of profit before taxation was 30.5%, compared with an ordinary tax charge of 30.1% for the 1999 financial year and 30.4% for the 1998 financial year. The 2000 effective tax rate compares with the standard 30% corporation tax rate for the year. The group's tax charge for the 1999 financial year was an effective 31.0% of pre-tax profit, excluding the MCI share sale gain, which was effectively subject to a lower tax charge under UK capital gains tax legislation. The group's ordinary tax charge for the 1998 financial year was an effective 31.5% of pre-tax profit, excluding the MCI merger break-up fee which again was similarly subject to a lower tax charge. These effective tax charges reflect the higher 31% rate of corporation tax set for the 1999 and 1998 financial years. The tax charge for the 1998 financial year included BT's £510 million share of HM Government's windfall tax on certain privatised companies, imposed in July 1997. The tax was paid in two equal £255 million instalments in December 1997 and December 1998.

Earnings and dividends

Basic earnings per share, based on the profit for the 2000 financial year of £2,055 million, were 31.7 pence. Earnings per share for the 1999 and 1998 financial years were 46.3 pence and 26.6 pence, respectively. Earnings before goodwill amortisation and exceptional items were 34.2 pence per share for the 2000 financial year, in comparison with 35.0 pence for the 1999 financial year and 31.7 pence for the 1998 financial year. Diluted earnings per share are not materially different.

Dividends paid and recommended for the 2000 financial year of 21.9 pence per share represent a 7.4% increase on the previous year and are covered 1.6 times by earnings before goodwill amortisation and exceptional items. These dividends comprise the interim dividend of 8.7 pence per share, paid in February 2000, and the proposed final dividend of 13.2 pence per share which, if approved at the annual general meeting, will be paid on 18 September 2000 to shareholders on the register on 18 August 2000. These dividends will absorb £1,426 million.

BT paid or recommended dividends of 20.4 pence per share for the 1999 financial year and dividends of 19.0 pence per share in respect of the 1998 financial year.

Financing

Net cash inflow from operating activities of £5,849 million in the 2000 financial year compared with £6,035 million in the 1999 financial year and £6,071 million in the 1998 financial year. Special contributions to the main pension fund, described below, of £230 million in the 2000 financial year and £200 million in the 1999 financial year were paid, consequently reducing the cash inflow in those years.

Tax paid in the 2000 financial year totalled £1,311 million. This included the first quarterly instalments under the new corporation tax regime in the UK. Tax paid in the 1999 financial year, which totalled £630 million, included the second and final windfall tax instalment of £255 million. Less UK corporation tax was paid in the 1999 financial year than in either of the preceding or succeeding years because of the advance corporation tax (ACT) on a special dividend paid in September 1997. In contrast, the tax paid in the 1998 financial year, which totalled £1,886 million, was particularly high because of £561 million ACT paid in

	2000 £m	1999 £m	1998 £m
Net cash inflow from operating activities	**5,849**	6,035	6,071
Dividends from ventures	**5**	2	5
Net cash outflow for returns on investments and servicing of finance	**(163)**	(328)	(160)
Tax paid	**(1,311)**	(630)	(1,886)
Net cash inflow (outflow) for capital expenditure and financial investment	**(3,752)**	1,046	(3,108)
Net cash outflow for acquisitions and disposals	**(6,405)**	(1,967)	(1,501)
Equity dividends paid	**(1,364)**	(1,186)	(3,473)
Cash inflow (outflow) before management of liquid resources and financing	**(7,141)**	2,972	(4,052)
Management of liquid resources	**1,236**	(2,447)	2,247
Net cash inflow (outflow) from financing	**5,959**	(458)	1,794
Increase (decrease) in cash in the year	**54**	67	(11)
Decrease (increase) in net debt in the year	**(6,582)**	3,146	(3,860)

respect of the special dividend and £255 million paid as the first windfall tax instalment.

The UK Government has changed the pattern of corporation tax payments from April 1999 by requiring companies to pay tax in quarterly instalments starting at the half-year stage in each financial year. The changes are being phased in over the 2000 to 2002 financial years, and replace the former main single corporation tax payment made nine months after the financial year end and ACT payments associated with dividends. The effect of these accelerated payment arrangements will be to increase the tax payments to be made by the group in the 2001 and 2002 financial years.

Net cash outflow of £3,752 million for capital expenditure and financial investment in the 2000 financial year was principally for capital expenditure on plant and equipment of £3,568 million. In the 1999 financial year, there was a net cash inflow of £1,046 million which mainly comprised the £4,159 million proceeds of the MCI shares sold in September 1998 offset by expenditure on plant, equipment and property totalling £3,220 million. The net cash outflow of £3,108 million in the 1998 financial year was principally for capital expenditure.

Net cash outflow on acquisitions totalled £6,405 million in the 2000 financial year. This included £3,014 million on the acquisition of the minority interest in BT Cellnet, £1,254 million invested jointly with AT&T in Japan Telecom and £659 million in Canadian interests, jointly owned with AT&T. The net cash outflow on acquisitions of £1,967 million in the 1999 financial year was principally the acquisition of MCI's minority interest in Concert Communications, the investments in LG Telecom and Maxis Communications as well as additional funding of the European ventures discussed below. The group's investment in Cegetel in September 1997 represented the main part of the net cash outflow of £1,501 million in the 1998 financial year.

Equity dividends paid in the 2000 financial year totalled £1,364 million, compared with £1,186 million in the 1999 financial year. Dividends paid in the 1998 financial year amounted to £3,473 million and included a special dividend of £2,244 million originally declared in September 1996.

The resulting cash outflow, before liquid resources and financing, of £7,141 million for the 2000 financial year was partly funded by the issue of new long-term financial instruments, principally two US dollar Eurobonds totalling US$1.2 billion and a £600 million Eurobond. We also drew on commercial paper programmes under which approximately £4.9 billion was outstanding at 31 March 2000 and used the group's existing short-term investments. In the 1999 financial year, a net cash inflow, before liquid resources and financing, of £2,972 million was mainly applied by investing in short-term investments. In the 1998 financial year, there was a net cash outflow of £4,052 million. This was financed by the issue of new loans, principally two Eurobonds totalling US$2.5 billion, and by using the group's existing short-term investments.

The cash outflow for the 2000 financial year resulted in net debt increasing to £8,700 million at 31 March 2000. This was in contrast to the cash inflow for the 1999 financial year, generated mainly by the MCI share sale proceeds, which resulted in net debt falling to £953 million at 31 March 1999.

Consequently, balance sheet gearing or the ratio of net debt (borrowings net of cash and short-term investments) to shareholders' equity and minority interests stood at 53% at 31 March 2000, compared with 6.3% a year earlier.

In the 2000 financial year, the group borrowed £1,473 million in long-term loans and repaid £587 million in long-term debt. In May 1999, BT issued a £600 million 5.75% Eurobond repayable in 2028 and, in October 1999, a US$1.0 billion five-year 6.75% Eurobond. In August 1999, BT repaid a US$200 million Eurobond on maturity which was refinanced by a further ten-year US$200 million Eurobond. On the acquisition of Esat, BT assumed approximately £550 million of debt, based on Esat's 31 December 1999 balance sheet. It is BT's intention to refinance a significant part of its commercial paper borrowings with medium or longer-term debt when market conditions allow. In the 1999 financial year, the group repaid long-term debt totalling £457 million; no significant new long-term debt needed to be raised. In the 1998 financial year, the group borrowed £1,637 million in long-term loans and repaid £338 million in long-term debt. BT issued a US$1.5 billion five-year 6.75% Eurobond in April 1997 and a US$1.0 billion ten-year 7% Eurobond in May 1997 in preparation for the group's cash requirements later in 1997.

In the 2001 financial year, £529 million of long-term debt falls due. In April 2000, we issued a £250 million series of 3.5% index linked notes repayable in 2025. We will raise further significant finance in the 2001 financial year to meet the financing needs of the 3G licence, won in April 2000, increased capital expenditure and acquisitions of interests in subsidiaries, joint ventures and associates and their additional funding requirements. We expect to fund this by liquidating short-term investments, financing it with further debt or, if appropriate, public offerings and

net debt at 31 March 2001 is expected to exceed 100% of shareholders' funds as a consequence.

Treasury policy

The group has a centralised treasury operation. Its primary role is to manage liquidity, funding, investment and the group's financial risk, including risk from volatility in currency and interest rates and counterparty credit risk. The treasury operation is not a profit centre and the objective is to manage risk at optimum cost.

The Board sets the treasury department's policy and its activities are subject to a set of controls commensurate with the magnitude of the investments and borrowings under its management. Counterparty credit risk is closely monitored and managed within controls set by the Board. Derivative instruments, including forward foreign exchange contracts, are entered into for hedging purposes only.

We have set out further details on this topic and on our capital resources and foreign currency exposure in note 32 to the financial statements in compliance with FRS 13.

Capital resources

The directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future and therefore they continue to adopt the going-concern basis in preparing the financial statements.

At 31 March 2000, the group had cash and short-term investments of £2,304 million. At that date, £5,121 million of short-term debt was outstanding, comprising principally £4,884 million of borrowings under BT's commercial paper programmes. In addition, the group had unused committed short-term bank facilities, amounting to approximately £5,800 million at 31 March 2000, in support of a commercial paper programme or other borrowings. The group also has substantial uncommitted short-term bank facilities.

At 31 March 1999, the group had cash and short-term investments of £3,380 million. At that date, £372 million of short-term debt was outstanding. In addition, the group had unused committed short-term bank facilities, amounting to approximately £150 million at 31 March 1999.

The decrease in short-term investments and increase in short-term borrowings in the 2000 financial year was required to finance BT's acquisitions of investments during the year.

The group had £8,700 million net debt at 31 March 2000, an increase of £7,747 million in the year. Net debt increased substantially during the course of the 2000 financial year, primarily as a result of acquisitions.

Foreign currency and interest rate exposure

Most of the group's current turnover is invoiced in pounds sterling, and most of its operations and costs arise within the UK. The group's foreign currency borrowings, which totalled £7,304 million at 31 March 2000, are used to finance its operations. Of these borrowings, approximately £6.2 billion was swapped into sterling. Cross currency swaps and forward foreign exchange contracts have been entered into to reduce the foreign currency exposure on the group's operations and the group's net assets. The group also enters into forward foreign exchange contracts to hedge investment, interest expense, purchase and sale commitments. The commitments hedged are principally US dollars, the euro and the yen. As a result of these policies, the group's exposure to foreign currency arises mainly on the residual currency exposure on non-UK investments in its ventures and on any imbalances between the value of outgoing and incoming international calls with Concert. To date, these imbalances have not been material. As a result, the group's profit has not been materially affected by movements in exchange rates, with the exception of the second half of the 1999 financial year when we had a large US dollar position with the short-term investments resulting from the MCI proceeds. We progressively closed out this exposure in the period to 31 March 1999 as the US dollar strengthened against sterling and, as noted above, we recorded a gain of £87 million, which was included in the profit for the 1999 financial year.

The majority of the group's long-term borrowings has been, and is, subject to fixed interest rates. The group has entered into interest rate swap agreements with commercial banks and other institutions to vary the amounts and period for which interest rates are fixed. At 31 March 2000, the group had outstanding interest rate swap agreements and gilt locks (based on forward sales of HM Government treasury stock) with notional principal amounts totalling £2,073 million. At 31 March 1999, the group had outstanding interest rate swap agreements with notional principal amounts totalling £1,371 million.

At the start of the 2000 financial year, the group was not significantly exposed to changes in interest rates. However, with the greater use of floating rate debt in the 2000 financial year, this has increased the group's sensitivity to changes in short-term sterling interest rates. Based upon the composition of net debt at 31 March 2000, a one percentage point increase in interest rates would increase the group's annual net interest expense by less than £55 million. This compares with a decrease in the annual net interest expense of £35 million based on the composition of net debt at 31 March 1999 using the same variation in

interest rates. The change in effect over the year was due to the change from an excess of short-term investments over short-term borrowings at the beginning of the 2000 financial year to an excess of short-term borrowings over short-term investments at its end.

The group is not significantly exposed to changes in currency rates. A 10% strengthening in sterling against major currencies would cause the group's net assets at 31 March 2000 to fall by less than £500 million, with insignificant effect on the group's profit. This compares with a fall of less than £250 million in net assets based on the group's net assets at 31 March 1999 using the same variation in currency rates. The increase in effect over the year was due to the greater proportion of the group's net assets deployed in non-UK countries following its significant investments in the year. Because the foreign exchange contracts are entered into as a hedge of sales and purchases, a change in the fair value of the hedge is offset by a corresponding change in the value of the underlying sale or purchase.

Capital expenditure

Capital expenditure on plant, equipment and property totalled £3,680 million in the 2000 financial year, compared with £3,269 million in the 1999 financial year and £3,030 million in the 1998 financial year. Work continues on enhancing the intelligence of the network to enable customers to benefit from advanced services and improving the network's capacity to carry high-speed data. We installed ADSL equipment in over 400 UK exchanges during the 2000 financial year as the first phase of our plan to roll-out this equipment to all our major local exchanges. We are progressively changing the fixed network from one based on switched technologies to a modern network based on the internet protocol (IP). BT Cellnet has continued improving the quality and capacity of its digital GSM network.

In April 2000, we won one of the five 3G licences in HM Government's auction for £4.03 billion, which we paid in May 2000. This 20-year licence should enable BT, coupled with its existing GSM spectrum, to deliver the next generation mobile multimedia service to its customers.

The group expects capital expenditure in the 2001 financial year to be slightly higher than that in the 2000 financial year. We plan to spend around £4 billion over the next three years on our IP backbone network, in providing web hosting facilities and continuing the expansion of our networks to meet the projected broadband demand. We also intend building new city fibre networks, wireless local loops and deploying ADSL in the UK and, as regulation permits, across continental Europe. BT expects that future capital expenditure will be provided from net cash inflows from operating activities and by external financing.

Acquisitions

During the 2000 financial year, BT completed a number of acquisitions of businesses or interests in ventures, located both within and outside the UK. The total amount invested, including deferred considerations and further funding of existing ventures, was £8,755 million. The investment in the new Concert global venture, in the form of assets contributed, is additional to this.

On 10 November 1999, we completed the acquisition of the 40% minority interest in BT Cellnet held by Securicor. The total cost of this acquisition, which was announced in July 1999, was £3,173 million, including legal fees and other expenses. Goodwill of £2,997 million arose on the transaction which is being amortised over a 20-year period.

Following an announcement in April 1999, BT jointly acquired with AT&T a 30% interest in Japan Telecom for £1,254 million on 31 August 1999. BT has an economic interest of 20%. Concurrent with this transaction, BT sold its Japanese subsidiary to Japan Telecom. Goodwill arising on the interest of Japan Telecom of £432 million is being amortised over a 20-year period.

In Canada, BT acquired an effective 9% economic interest in AT&T Canada. In conjunction with AT&T, we jointly purchased 33% of Rogers Cantel Mobile Communications, a leading mobile operator, leaving BT with an effective interest of approximately 17%. The consideration paid by BT on 16 August 1999 for these two investments totalled £659 million.

On 5 January 2000, BT and AT&T announced the financial completion of Concert, the global communications joint venture. This venture, originally announced in July 1998, was formed by BT transferring the majority of its cross-border international network assets, its international traffic, its business with selected multinational customers, together with Concert Communications, and AT&T transferring similar assets and businesses. The unrealised profit on transferring these assets of £159 million has been recognised in BT's statement of recognised gains and losses.

In August 1999, we completed the acquisition of the Yellow Book USA classified directory advertising business based in New York for a total consideration of £415 million. In the same month, we acquired Control Data Systems (renamed Syntegra (USA)), a US-based e-commerce and systems integration company, for £213 million. In May 1999, we acquired a 20% interest in SmarTone of Hong

Kong, a leading provider of digital mobile communications services, for £241 million.

Under an agreed offer made in January 2000 and separate transactions with two of its major shareholders, we acquired control of Esat Telecom Group (Esat) at the end of March 2000, following regulatory clearance, for a consideration of £1,520 million. We paid the majority of the consideration in April 2000 after the financial year end. This leading Irish communications group holds a 49.5%interest in Esat Digifone, Ireland's second largest mobile phone operator. We acquired a further 1% in this company in January 2000, so it also became part of the BT group at the end of March 2000. Telenor, the Norwegian communications operator, is the other shareholder in Esat Digifone, with a 49.5% interest. BT has agreed with Telenor to allow it to exchange its interest in Esat Digifone for a 33% interest in Esat and also to purchase from us such additional shares in that group as would give Telenor an almost 50% interest in Esat at a total price of US$624 million plus interest. If Telenor does not exchange its interest in Esat Digifone in this way, we will purchase its interest for US$1,238 million. We expect Telenor to decide its course of action during the 2001 financial year.

In the 1999 financial year, BT acquired from MCI its 24.9% interest in Concert Communications for £607 million. Goodwill of £568 million arose on this transaction. As explained above, Concert Communications was transferred to the global venture with AT&T in early January 2000.

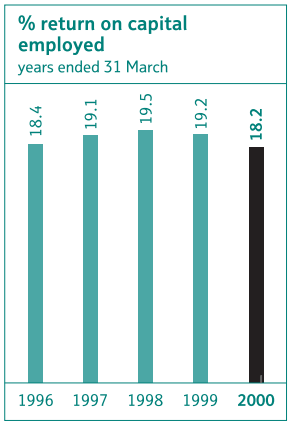
In March 1999, the group, through its then 60%-owned subsidiary BT Cellnet, completed the acquisition of Martin Dawes Telecommunications Holdings (MDT) (renamed BT Cellnet Lumina), then the largest independent mobile telecommunication services provider in the UK. The consideration totalled approximately £130 million, of which £90 million was deferred. In December 1999, an additional £27 million was paid in acquiring a minority interest in MDT's main operating subsidiary. Goodwill of £186 million arose on this combined acquisition and is being amortised over 10 years.

The group invested £1,326 million in the 1999 financial year on acquiring interests in associates and joint ventures and providing their further funding. The most significant investments were made in October 1998 in the Asia-Pacific region. A 33.3% stake in Maxis Communications (formerly Binariang) of Malaysia was acquired for £279 million and a 23.5% interest in LG Telecom in the Republic of Korea was acquired for £234 million. The goodwill element of these acquisitions is being amortised over 20 years under the group's new accounting policy for goodwill adopted from the beginning of the 1999 financial year. BT continued to share in funding the development of its ventures, principally Viag Interkom of Germany (£482 million) and Telfort of the Netherlands (£103 million), in the financial year.

In the 1998 financial year, the group invested over £1,650 million in acquisitions and further funding. In September 1997, the group completed its acquisition of a 26% interest in Cegetel of France for a total of £1,029 million. Over £400 million was invested in other European telecommunications companies in the year, primarily in Germany, Spain and the Netherlands. The goodwill arising on all of these acquisitions amounted to £869 million out of a total of £937 million, which was written off to reserves under the UK accounting policy in operation for that and preceding years.

In March 2000, we announced that we would be taking an equity interest, jointly with Japan Telecom, in a number of regional Japanese mobile phone companies (J-Phone Communications). These companies are planning to build out their third generation cellular networks and we shall participate in the financing of this capital investment.

In April 2000, we announced that we would acquire for £1.2 billion our partner's interest in Telfort, the communications joint venture which we established in the Netherlands in 1997.



Return on capital employed

The group made a return before goodwill amortisation of 18.2% on the average capital employed in its business excluding goodwill, on a historical cost basis, in the 2000 financial year, compared with returns of 19.2% and 19.5% in the 1999 and 1998 financial years, respectively.

Pensions

The most recently completed actuarial valuation of the BT Pension Scheme (BTPS), BT's main pension fund, was carried out as at 31 December 1996. This valuation revealed the fund to be in surplus to an amount of approximately £66 million. Assets of the fund at £19,879 million at that date covered just over 100% of the fund's liabilities. This actuarial valuation took into account the effect of HM Government's measures in July 1997 to end pension funds' ability to reclaim the tax credit associated with UK companies' dividends.

The group's annual pension charges for the 2000, 1999 and 1998 financial years of £167 million, £176 million and £177 million, respectively, have been based on this December 1996 valuation. These charges take into account the amount of the pension provision which had been established over recent years in the group's accounts and which stood at £629 million at 31 March 2000. Additionally, under UK accounting standards, the cost of providing incremental pension benefits for early leavers in each of these three financial years has not been charged against the profit in the period in which people agree to leave, since the latest actuarial valuation of the pension fund, together with the pension provision, indicated a surplus.

The group's ordinary contribution into the fund has been at 9.5% of employees' pensionable pay during each of the three financial years under review. In addition, the company paid special contributions into the fund of £230 million in March 2000 and £200 million in March 1999 in part because of redundancies.

The number of retired members and other current beneficiaries in the pension fund has been increasing in recent years and, at 31 December 1999, was approximately 45% higher than the number of active members. Consequently, BT's future pension costs and contributions will depend to a large extent on the investment returns of the pension fund and could fluctuate in the medium term.

A further full actuarial valuation of the pension fund is being carried out as at 31 December 1999. Preliminary indications show that, using assumptions to be adopted for calculating the company's pension cost in the 2001 and following financial years under SSAP24, the assets of the scheme at 31 December 1999 of over £29 billion broadly match the actuarial liabilities of members' past service to that date.

We expect the pension cost charged in the group's accounts, which amounted to £167 million in the 2000 financial year, to approximately double in the 2001 financial year. This is, in part, because of the general trend towards longer life expectancy. There will also be a smaller amortisation in future of the combined pension fund position and pension provision held in the BT group balance sheet. The amortisation credit netted in pension costs amounted to £163 million in the 2000 financial year. We expect that the cash contributions payable to the fund will rise in the 2001 financial year, from the 9.5% of pay that we have paid in recent years, to around 11.5%.

Following a High Court judgement made in October 1999, the BTPS is liable to pay additional benefits to certain former employees of the group who left under voluntary redundancy terms. These were former employees, in managerial grades, who had joined the group's business prior to 1 December 1971. The value of the additional benefits at 31 March 2000 is estimated at £300 million.

Impact of inflation

In accordance with a requirement of BT's main licence, the group's annual accounts for the 1999 financial year prepared on a current cost basis were published in September 1999. These accounts showed that the group's current cost profit before tax was £4,463 million, compared with £4,295 million under the historical cost convention. The group's current cost total assets at 31 March 1999 were £30,922 million, compared with £27,962 million in its historical cost accounts. The current cost accounts for the 2000 financial year are to be published by 30 September 2000.

Environment

When removing old analogue exchange equipment from buildings, BT recycles the metal content and takes special care to properly dispose of any hazardous materials. Although BT receives proceeds from the sale of recovered materials, this is more than offset by the cost of dealing with hazardous materials, contracting and planning their removal and preparing the released site for further development. BT believes that the total cost of dealing with these hazardous materials will not be significant.

Segmented information

BT essentially operates as a unitary business, providing an integrated range of telecommunications products and services. Accordingly, BT does not publish separately the operating profit for the various sources of turnover described above. In the 2000 financial year, approximately 95% of the group's turnover was generated by operations in the UK, compared with 96% in the 1999 and 1998 financial years. Including BT's proportionate share of its ventures, which are mainly located outside the UK, 82% of total turnover was generated in the UK, compared with 90% in the 1999 financial year and 94% of total turnover from continuing operations in the 1998 financial year.

BT is required under its main licence to publish disaggregated financial information for various activities of the group, which have been used as the basis of charges paid by other telecommunication operators in the UK for the use of BT's network. The activities presented separately in the regulatory financial statements do not necessarily correspond with any businesses separately managed, funded or operated within

the group. The results set out in these statements for the 1999, 1998 and 1997 financial years showed that the group's operating profit is derived predominantly from local, national and international calls, after taking account of an operating deficit arising on the provision of exchange lines.

BT has provided disaggregated financial information in accordance with the requirements of the US SFAS No. 131 which requires such information to be analysed in a similar manner to that used by management in managing the business. This information is set out in note 33 to the financial statements. It should be appreciated that this information is used internally as part of the group's system of management and budgetary control over income and costs and the absolute results for any one particular element are not necessarily meaningful in isolation. In particular, capital resource allocation is planned and managed using capital project systems which are centralised in nature.

In April 2000, we announced a restructuring whereby the group and its ventures would be managed in four global businesses and two UK operating divisions, together with the Concert global venture. The four global businesses are: Ignite responsible for broadband and internet networks, including ADSL in the UK and Europe and meeting the needs of business customers; BTopenworld covering the consumer market for internet products around the world; BT Wireless covering the group's global interests in mobile communications; and Yell responsible for the classified directories and associated e-commerce businesses. The two UK operating divisions will be a wholesale division covering the UK fixed network and a retail division responsible for marketing UK fixed-network products.

It is intended that financial information on the four global businesses will be published once they are established from July 2000. Unaudited illustrative financial information for the 2000 and 1999 financial years is provided on page 113.

Year 2000

The Year 2000 problem arose from the inability of many computer-based systems to handle correctly the century date change and other significant dates such as 29 February 2000.

The transition into the Year 2000 went smoothly with no significant Year 2000 issues emerging. Those that did were minor and did not affect customer service. Demand on our network services in the early hours of 1 January 2000 was double that of the previous year.

The total cost of the Year 2000 programme was £281 million, which was funded by displacement of other activities. The cost includes that of BT's own people. Costs incurred in the 2000 financial year were £67 million, including special overtime for the Millennium New Year.

All Year 2000-related investigation, remedial work and testing costs have been written off as incurred, as these relate to making existing computer software Year 2000 conformant.

Economic and Monetary Union (EMU)

On 1 January 1999, a new currency, the euro, was introduced into the European Union as part of EMU and 11 participating member states established fixed conversion rates between their existing currencies and the euro. The currencies of these participating member states now exist only as subdivisions of the euro.

Most of the group's business in Europe is conducted in the UK, which is not one of the original 11 participating member states. Government policy on UK membership of the single currency was set out by the Chancellor of the Exchequer in a statement to the House of Commons in October 1997. The determining factor underpinning any Government decision on membership of the single currency is whether the economic case for the UK joining is clear and unambiguous. Because of the magnitude of the decision, HM Government believes that, whenever the decision to enter is taken, it should be put to a referendum of the British people. The Government has said that it will produce an assessment of five relevant economic tests early in the next parliament and that both Government and business should make active preparations to give the UK the genuine option to decide to join.

BT has established a steering group, with representatives from across the group, to review the impact of the introduction of EMU. A project team acts as a co-ordination point to ensure consistency of approach across the group and that plans are in place to meet agreed business strategy on EMU. BT is prepared to allow customers to settle certain sterling-based bills in euros under certain circumstances.

The group carries on business in certain of the participating member states and is continuing to take appropriate steps to adapt its operations to use the euro.

BT is considering the impact of EMU on the UK business and the associated costs.

US GAAP

The group's net income and earnings per share for the three financial years ended 31 March 2000 and

shareholders' equity at 31 March 2000 and 1999 under US Generally Accepted Accounting Principles (US GAAP) are shown on page 105. Differences between UK GAAP and US GAAP include results of the differing accounting treatment of pension costs, redundancy costs, intangible assets, goodwill, deferred taxation, capitalisation of interest, financial instruments, contributing assets to joint ventures and dividends. Cash flow information under the US GAAP presentation is also shown on page 106.

In its US GAAP reconciliation statement for the 2002 financial year, BT expects to adopt SFAS No. 133 on accounting for derivative instruments and hedging activities. Under this standard, derivative instruments are required to be included in the balance sheet at fair value and certain changes in these fair values need to be recognised in the income statement. The impact of implementing this standard will be determined by market conditions after implementation and the ability to treat derivative instruments as hedges in accordance with the standard. Gross cumulative gains and losses on financial instruments treated as hedges under US GAAP at 31 March 2000 were £96 million and £46 million, respectively.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 101 (SAB 101), "Revenue Recognition in Financial Statements", which BT is required to adopt in its US GAAP reconciliation statements by 30 June 2000. SAB 101 provides additional guidance on revenue recognition as well as criteria for when revenue is generally realised and earned. We are currently assessing the impact of SAB 101 on the US GAAP reconciliations.

Board of Directors

Chairman

Sir Iain Vallance *(d) (f)*
Sir Iain Vallance was appointed a director in 1984. He served as Chief Executive from 1986 to the end of 1995 and has been Chairman since 1987. Sir Iain became part-time Chairman on 1 August 1998. He chairs the *Nominating* and *Community Support* committees and is chairman of Concert, the global venture between BT and AT&T. Sir Iain is also a vice-chairman of The Royal Bank of Scotland, deputy president of the CBI, a non-executive director of Scottish Enterprise, vice-chairman of the European advisory committee of The New York Stock Exchange and a vice president of the Princess Royal Trust for Carers. Aged 57.

Executive Directors

Sir Peter Bonfield CBE *Chief Executive (a)*
Sir Peter Bonfield was appointed to the Board on 1 January 1996 as Chief Executive. He chairs the *Group Executive Committee*. Sir Peter is a fellow of the Royal Academy of Engineering and the Institution of Electrical Engineers. From 1981 to 1995, he worked for ICL, latterly as chairman and chief executive. He is currently non-executive deputy chairman of ICL, a non-executive director of AstraZeneca, a member of the advisory board of Salomon Smith Barney and vice president of the British Quality Foundation. Aged 55.

Robert P Brace FCA *Group Finance Director (a) (e)*
Robert Brace joined the company in 1989 and was appointed to the Board in 1993 as Group Finance Director. A finance professional, he started with Peat Marwick Mitchell (KPMG) in 1971 and subsequently held senior finance roles with Unipart and Black & Decker. Aged 50.

Bill Cockburn CBE, TD *Group Managing Director, BT UK (a)*
Bill Cockburn joined the company on 1 October 1997 as Group Managing Director of BT's UK business and was appointed to the Board with effect from 1 April 1998. After a career in the Post Office, he became chief executive in 1992. In November 1995, Bill Cockburn joined WH Smith as a director, becoming chief executive in 1996. He is a non-executive director of Lex Service, a member of the Business in the Community board and a trustee of the Princess Royal Trust for Carers. Aged 57.

Non-Executive Directors

Lord Marshall of Knightsbridge *Deputy Chairman (b) (c) (d)*
Lord Marshall was appointed to the Board in 1995 and became Deputy Chairman in January 1996. He chairs the *Audit* and *Remuneration* committees. Lord Marshall is chairman of British Airways, Inchcape and Invensys, and a non-executive director of HSBC Holdings and The New York Stock Exchange. Aged 66.

Helen Alexander *(b) (d)*
Helen Alexander joined the Board on 1 June 1998. She has been chief executive of The Economist Group since January 1997. Helen Alexander joined The Economist in 1984 and was managing director of The Economist Intelligence Unit from 1993 to the end of 1996. She is also a non-executive director of Northern Foods and a member of the ethics committee of the University College London Hospitals. Aged 43.

Dr Iain Anderson *(b) (c) (d) (e)*
Dr Anderson was appointed to the Board in 1995. He is chairman of the BT Scotland Board and chairs the *Pensions Committee*. Dr Anderson joined the Board of Unilever in 1988 and was the strategy and technology director of Unilever until he retired in May 1998. He is a non-executive director of Scottish & Newcastle, a director of Scottish Science Trust and the Leverhulme Trust and was special adviser to the Prime Minister on Millennium Compliance (Y2K). Aged 61.

Louis R Hughes *(b)*
Louis Hughes joined the Board on 1 January 2000. He was appointed to the board of Lockheed Martin Corporation as president and chief operating officer in April 2000. Louis Hughes was formerly executive vice president of General Motors from 1992. He is also a member of the supervisory board of Deutsche Bank and a non-executive director of Electrolux. He is a US national. Aged 51.

Neville Isdell *(b) (c) (d)*
Neville Isdell joined the Board on 1 July 1998. He is chairman and chief executive of Coca-Cola Beverages. Neville Isdell joined Coca-Cola in 1968 and has held a number of posts managing Coca-Cola's businesses in various parts of the world. He has served on the boards of the publicly-quoted Coca-Cola Enterprises US and Coca-Cola Amatil Australia. He is an Irish national. Aged 56.

Board of Directors

June de Moller *(c) (e)*
June de Moller was appointed to the Board on 1 September 1999. Appointed a director of Carlton Communications in 1983, she became Carlton's managing director in 1993, stepping down from that position in January 1999. June de Moller is also a non-executive director of Cookson Group, Lynx Group and J. Sainsbury. Aged 52.

Keith Oates *(b) (c) (d)*
Keith Oates was appointed to the Board in 1994. Formerly deputy chairman and managing director of Marks and Spencer, he is a non-executive director of Diageo. Keith Oates' international experience includes working for IBM and Black & Decker. He is a member of the Financial Services Authority and was formerly on the English Sports Council and a governor of the BBC. Aged 57.

Sir John Weston *(b) (e) (f)*
Sir John Weston joined the Board on 1 October 1998. He retired as Britain's Ambassador to the United Nations in New York in July 1998. Sir John was formerly British Ambassador to NATO. He is also a non-executive director of Rolls-Royce and honorary president of the UK-wide Community Foundation Network. Aged 62.

Company Secretary

Colin R Green *(a)*
Colin Green, a solicitor, was appointed Secretary and Chief Legal Adviser in 1994. On 1 April 1999, he became Group Commercial Director and Secretary. Aged 51.

Key to membership of principal Board committees:
(a) Group Executive
(b) Audit
(c) Remuneration
(d) Nominating
(e) Pensions
(f) Community Support
All of the non-executive directors are considered independent of the management of the company

Report of the Directors

The directors submit their report and the audited financial statements of the company, British Telecommunications plc, and the group, which includes its subsidiary undertakings, for the 2000 financial year.

Introduction

The business review on pages 8 to 22, our commitment to society on pages 23 and 24, the financial review on pages 27 to 41, the discussion on corporate governance on pages 45 to 47 and the report on directors' remuneration on pages 48 to 56 form part of this report. The audited financial statements are presented on pages 59 to 110 .

Principal activity

The group's principal activity is the supply of communication services and equipment. In the year, 95% of group turnover arose from operations in the UK.

Directors

The names and biographical details of the directors of the company are given on pages 42 and 43. All served throughout the financial year, with the exception of June de Moller and Louis Hughes who joined the Board on 1 September 1999 and 1 January 2000, respectively.

In accordance with the articles of association, June de Moller and Louis Hughes, having been appointed to the Board since the last annual general meeting, retire at the forthcoming annual general meeting and will be proposed for election. Helen Alexander, Neville Isdell, Lord Marshall and Keith Oates retire by rotation and will be proposed for re-election. Details of these directors' contracts of appointment are included in the discussion on corporate governance on page 45 and the report on directors' remuneration on page 56.

Substantial shareholdings

At 24 May 2000, the company had received no notification under Part Vl of the Companies Act 1985 in respect of holdings of 3% or more of the company's issued ordinary share capital.

Interest of management in certain transactions

During and at the end of the 2000 financial year, none of the company's directors was materially interested in any material transaction in relation to the group's business and none is materially interested in any presently proposed material transactions.

Policy on the payment of suppliers

BT's policy is to use its purchasing power fairly and to pay promptly and as agreed.

BT has a variety of payment terms with its suppliers. The terms for payments for purchases under major contracts are settled when agreeing the other terms negotiated with the individual suppliers. It is BT's policy to make payments for other purchases within 30 working days of the invoice date, provided that the relevant invoice is presented to the company in a timely fashion and is complete. BT's payment terms are printed on the company's standard purchase order forms or, where appropriate, specified in individual contracts agreed with the supplier. The ratio, expressed in days, between the amounts invoiced to the company by its suppliers in the 2000 financial year and the amounts owed to its trade creditors at the end of the year was 23 days.

Auditors

A resolution to reappoint PricewaterhouseCoopers as auditors of the company and authorise the directors to settle their remuneration will be proposed at the annual general meeting.

Authority to purchase shares

The authority for the company to purchase 647 million of its shares, representing 10% of the issued share capital, in the market expires on 13 October 2000. This authority was not used during the year and shareholders will be asked to give a similar authority at the annual general meeting.

Annual general meeting resolutions

The resolutions to be proposed at the annual general meeting to be held on 12 July 2000, together with explanatory notes, appear in the separate Notice of Annual General Meeting sent to all shareholders.

By order of the Board

C R Green
Secretary
24 May 2000
Registered office: 81 Newgate Street, London EC1A 7AJ
Registered in England No. 1800000

Corporate Governance

BT's policy is to achieve best practice in our standards of business integrity in all our activities around the world. This includes a commitment to follow the highest standards of corporate governance throughout the BT group. This section of the annual report describes how BT has applied the principles set out in Section 1 of the Combined Code on Corporate Governance (the Code).

The directors consider that, throughout the year, BT has fully complied with the provisions set out in Section 1 of the Code.

The Board

The Board continues to meet every month, except in August. Its principal focus is the overall strategic direction, development and control of the group. Key matters, such as approval of the group's strategic plans and annual operating plan and budget, and monitoring the company's operating and financial performance, are reserved for the Board. These reserved matters are set out in a formal statement of the Board's role. It is sent to all directors, key senior executives and managers involved in the management of the company's principal operations, together with information on the authorities delegated by the Board and the terms of reference and membership of the principal Board and management committees.

BT's aim is for the Board to comprise approximately two-thirds non-executive directors. Three of the twelve are full-time executives. The Chairman is part-time. Eight of the twelve current directors are non-executive. They are all independent of the management of BT. Between them, the non-executive directors bring experience and independent judgement at a senior level of international business operations and strategy, marketing, communications and international affairs.

The non-executive directors provide a strong independent element on the Board with Lord Marshall, Deputy Chairman, as the senior independent member. However, the Board operates as a single team.

Non-executive directors are appointed initially for three years. Towards the end of that period, the Board will consider whether to continue the appointment, which will then become terminable on twelve months' notice from either BT or the director. Appointments will be reviewed again by the Board before the end of the sixth year. Normally, appointments will be for a maximum of ten years. The Deputy Chairman's contract was renewed for a second three-year term from 1 April 1998. It may be terminated on twelve months' notice.

All directors are required by the company's articles of association to be elected by shareholders at the first annual general meeting after their appointment. At least one third of the other directors must seek re-election by the shareholders each year. This can mean that directors are not necessarily re-elected every three years. To comply with the Code BT's policy is that, in practice, no director stays in office for more than three years without re-election.

The Chairman and executive directors have service agreements, which are approved by the *Remuneration Committee*. Information about the periods of these contracts is in the *Report on directors' remuneration*.

The Board has a procedure for directors, in furtherance of their duties, to take independent professional advice if necessary, at the company's expense. In addition, all directors have access to the advice and services of the Secretary, the removal of whom is a matter for the whole Board. He advises the Board on appropriate procedures for the management of its meetings and duties, as well as the implementation of corporate governance and compliance in the group.

On appointment, directors take part in an induction programme when they receive information about BT, the formal statement of the Board's role, the powers which have been delegated to the company's senior managers and management committees and latest financial information about the group. This is supplemented by visits to key BT locations and meetings with members of the *Group Executive Committee* and other key senior executives. Throughout their period in office they are updated on BT's business, the competitive and regulatory environments in which it operates and other changes, by written briefings and meetings with senior BT executives. Directors are also advised on appointment of their legal and other obligations as a director of a listed company, both in writing and in face-to-face meetings with the Secretary. They are reminded of these obligations each year and are encouraged to attend training courses at the company's expense.

Guidelines are in place concerning the content, presentation and delivery of papers to directors for each Board meeting, so that the directors have enough information to be properly briefed.

Principal Board committees

The Chief Executive, Sir Peter Bonfield, chairs the *Group Executive Committee*. The other members are the Group Finance Director, the Group Managing Director BT UK, the President and Chief Executive BT Worldwide and BT Solutions, the Group Commercial Director and Secretary, the Group Personnel Director, the Group Director Strategy and Development, the Group Communications Director, the Group Engineering

Director and Chief Technology Officer, the Managing Director, BT Cellnet and UK Mobility, the President BT Europe, the Managing Director Network and Information Services and the Director, Brand and Reputation. The Committee develops the group's strategy, for Board approval, and oversees its implementation. It also finalises, before Board approval, annual operating and capital expenditure plans and budgets, reviews operational activities and agrees and monitors group-wide policies, where these are not reserved to the Board.

The *Nominating Committee*, consisting of the Chairman, Deputy Chairman and three other non-executive directors, ensures the Board has an appropriate balance of expertise and ability. For this purpose, it has agreed, and regularly reviews, a profile of the required skills and attributes. This profile is used to assess the suitability as non-executive directors of candidates put forward by the directors and outside consultants. Candidates short-listed for appointment are met by the Committee before it recommends an appointment to the Board.

The *Nominating Committee* also assesses candidates for executive directorships before it recommends an appointment.

The *Audit Committee*, comprising solely non-executive directors, is chaired by Lord Marshall. Its terms of reference, include reviewing BT's internal controls and published financial reports for statutory compliance and against standards of best practice, and recommending to the Board appropriate disclosure in these reports. It also reviews annually the performance of the company's auditors to ensure that an objective, professional and cost-effective relationship is maintained. It recommends to the Board the auditors' fees for their audit services. The Group Finance Director and the Group Commercial Director and Secretary attend Audit Committee meetings. Each year, the Committee sets aside time to seek the views of the company's auditors in the absence of executives.

The *Remuneration Committee* comprises solely non-executive directors and is chaired by Lord Marshall. Further details about the Committee are included in the *Report on directors' remuneration*.

Committee membership is identified in the table of directors on pages 42 and 43.

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.

The Code introduced a requirement that the Board's review of internal controls extend to all controls, including financial and operational controls, compliance and risk management. Guidance for directors on this requirement was published in September 1999. The Board confirms that the procedures necessary to implement this guidance were established by 31 March 2000. The Board intends to report on its review of the whole system of internal control in next year's annual report.

For the 2000 financial year, the *Audit Committee* has continued to review internal financial controls in accordance with the London Stock Exchange's transitional rules.

Key elements of the group's systems of internal financial control are:

- Formal policies and procedures are in place, including the documentation of key systems and rules relating to the delegation of authorities, which allow the monitoring of controls and restrict the unauthorised use of the group's assets.
- Experienced and suitably qualified staff take responsibility for important business functions. There are rigorous recruitment policies and annual appraisal procedures which assess performance against agreed objectives and identify necessary training to maintain and enhance standards of performance.
- Forecasts and budgets are prepared which allow management to monitor the key business and financial activities and risks and the progress towards financial objectives set for the year and the medium term; monthly management accounts are prepared promptly providing relevant, reliable and up-to-date financial and other information; significant variances from budget are investigated as appropriate.
- All investment projects are subject to formal authorisation procedures. The Board considers major investment projects, with other projects being approved by the *Group Investment Committee* (a sub-committee of the *Group Executive Committee*) or senior management within delegated authorities approved and reviewed by the Board.
- The *Audit Committee* reviews reports from management, from the internal auditors and from the external auditors, to provide reasonable assurance that control procedures are in place and are being followed.
- Formal procedures have been established for instituting appropriate action to correct weaknesses identified from the above reports.

The *Audit Committee* has conducted its annual review of the effectiveness of the systems of internal financial control in existence in the group for the 2000 financial year and for the period up to the date of approval of the financial statements.

Relations with shareholders

Senior executives, led by the Chief Executive and Group Finance Director, hold meetings with the company's principal institutional shareholders to discuss the company's strategy, financial performance and specific major investment activities. As explained in the *Report on directors' remuneration*, the company also maintains contact, when appropriate, through the Chairman of the *Remuneration Committee* and appropriate senior executives to discuss overall remuneration policies and plans. Contact with institutional shareholders (and financial analysts, brokers and the press) is controlled by written guidelines to ensure the protection of share price sensitive information which has not already been made available generally to the company's shareholders.

The company's policy has always been to allow shareholders to vote at the AGM on the annual report and it is continuing that policy this year. Shareholders also voted on the company's directors' and senior executives' remuneration policy at the 1999 AGM. As there have been no major changes to that policy, the Board does not consider it appropriate for the policy to be voted upon this year.

It is also part of the company's policy to involve its shareholders fully in the affairs of the company and to give them the opportunity at the AGM to ask questions about the company's activities and prospects and to vote on every substantially different issue by proposing a separate resolution for each issue. The Board's opinion is that the re-election and fees of the auditors are inter-related issues and should therefore be dealt with by one resolution.

The proxy votes for and against each resolution, as well as abstentions, will be counted before the AGM and the results will be made available at the meeting after shareholders have voted on a show of hands.

It is our policy for all directors to attend the AGM if at all possible. Whilst, because of ill health or other pressing reasons, this may not always be achievable, in normal circumstances this means the chairman of the *Audit* and *Remuneration* committees is at the AGM and is available to answer questions.

BT's practice is to post the Annual Report and Notice of AGM, given the large number of shareholders, in the most cost-effective manner. We aim to give as much notice as possible and at least 21 clear days, as required by our articles of association. In practice, the Annual Report and the Notice of AGM are being sent to shareholders more than 20 working days before the AGM.

Established procedures ensure the timely release of share price sensitive information and the publication of financial results and regulatory financial statements.

Statement of Business Practice

To reinforce our commitment to our policy to achieve best practice in our standards of business integrity around the world, BT has, over the year, communicated its revised Statement of Business Practice across the group.

The Statement now better reflects BT's growing worldwide operations and the increasing expectations in the areas of corporate governance and business practice standards. It also recognises the importance of our joint venture partnerships and outlines how we work with our partners in the creation of added value whilst working within high standards of business practice. This new Statement has been sent to every employee and it is on the company intranet site. The Statement is available in eight languages. There is an ongoing comprehensive communications exercise being rolled out across BT to increase employee awareness and understanding, e.g. an intranet training set, internal e-publication articles. Further initiatives involving a range of different media and technologies are being planned.

These high-level principles are linked into everyday policies and principles by the operating units. A confidential help line and e-mail facility is available to employees who have questions regarding the application of these principles. We also continue to require our agents and contractors to apply these principles when representing BT.

Pension Fund

BT's main pension fund – the BT Pension Scheme – is not controlled by the Board, but by trustees who are company and union nominees, with an independent chairman. The trustees look after the assets of the pension fund, which are held separately from those of the company. The pension scheme funds can only be used in accordance with its rules and for no other purpose.

Reporting

A statement by the directors of their responsibilities for preparing the financial statements is included on page 57.

Report on directors' remuneration

The *Remuneration Committee* is made up wholly of independent non-executive directors. Throughout the year, the company has applied the principles in Section 1 of the Combined Code on Corporate Governance (the Code) and complied with the Code.

The Committee's role is to set the remuneration policy for the Chairman, the executive directors and the members of the company's *Group Executive Committee*. Specifically, it agrees the service contracts, salaries, other benefits including bonuses and participation in the company's executive share plans, and other terms and conditions of employment. Lord Marshall has chaired the Committee since 1 January 1996. Its other members during the year were: Dr Iain Anderson, Neville Isdell, June de Moller (appointed 1 September 1999) and Keith Oates.

The Committee met four times during the 2000 financial year. The Chairman and Chief Executive are invited to attend meetings when appropriate. They are not present when matters affecting their own remuneration arrangements are considered.

Although the Board considers itself ultimately responsible for both the framework and the cost of executive remuneration, it has delegated prime responsibility for executive remuneration, to the *Remuneration Committee*. Non-executive directors who are not members of the Committee are entitled to receive papers and minutes of the Committee.

The Committee has access to professional advisers both within the company and externally. The Committee Chairman and senior executives maintain contact when appropriate with BT's principal shareholders and the main representative groups of the institutional shareholders to consult on the company's overall remuneration policy and its development.

Remuneration Policy

BT's executive remuneration policy is in line with the company's overall practice on pay and benefits. This is to reward employees competitively, taking into account performance, market comparisons and competitive pressures in the communications and IT sectors worldwide. Whilst not seeking to maintain a strict market position, it takes account of comparable roles in similar organisations. These may be similar in size, market sector, business complexity or international scope. As BT is now more of a global business, it takes account of remuneration packages outside the UK where a particular market warrants this approach. The strategy for executive pay, in general terms, is for basic salaries to reflect the relevant market median, with total direct compensation (that is, basic salary, annual bonus payments and the value of long-term incentives) to be at the upper quartile for exceptional performance.

The Committee considers that it is crucial to link a significant proportion of the total executive remuneration package to individual and corporate performance. It is the Committee's policy to increase the proportion of the total remuneration package linked to performance to align executive performance and reward with the interests of shareholders. Remuneration policy and arrangements are kept under regular review to achieve this objective and to ensure the company can attract and retain executives of the necessary quality in a highly and increasingly competitive marketplace.

Packages

The remuneration package for the Chairman and executive directors comprises some or all of the following elements:

Basic salary

Salaries are reviewed (although not necessarily increased) annually. Salaries are increased only where the Committee believes that adjustments are appropriate to reflect performance, increased responsibilities and/or market pressures.

Performance-related remuneration

Annual bonus

The annual bonus plan focuses on annual objectives and is designed to reward appropriately the achievement of results against these objectives. Targets are set at the start of the financial year based on key corporate objectives, such as revenue growth, profitability, quality of service, customer satisfaction and people management. Specific weights are attached to each objective on the basis of the BT Corporate Scorecard. The Committee retains the flexibility to enhance bonus awards in exceptional circumstances.

BT Executive Share Plan/BT Performance Share Plan

The BT Executive Share Plan (ESP) was approved by shareholders in 1995. Awards of BT shares normally vest at the end of five years but only if BT's total shareholder return (TSR) meets a pre-determined target relative to the other companies in the FT-SE 100 and if the executive is still employed by the group. Awards are based on the executive's bonus and are therefore dependent on his or her individual performance. The initial value of the awards granted in the 2000 financial year was between 50% and 100% of salary. Around 120 senior executives participate in the ESP.

The first vesting of awards under the ESP was in the 2000 financial year. On the basis that the company's TSR was at 15th position compared with the other FT-SE 100 companies at the end of the five-year performance period, 100% of the shares under award vested in 25 participants on 2 August 1999.

The BT Performance Share Plan (PSP) was also approved by shareholders in 1995. Like the ESP, the vesting of awards of BT shares under the PSP is subject to the company meeting a pre-determined TSR target measured against the other companies in the FT-SE 100. Normally, if the performance target is met and the participant is still employed by the group, the awards will vest within two years after the end of a three-year cycle (which may be extended up to five years).

The value of awards granted under the PSP in the 2000 financial year was generally in the range of 10% to 25% of salary. Around 1,800 key managers, who do not participate in the ESP, have received awards under the PSP.

In the event of the company purchasing its own shares, the *Remuneration Committee* will review performance targets under the ESP and the PSP and adjust them if it considers such an adjustment would be appropriate.

BT Deferred Bonus Plan

The BT Deferred Bonus Plan (DBP) was established in 1998.

Awards, in the form of BT shares, were granted to around 300 senior executives during the 2000 financial year in respect of the 1999 financial year. The awards were generally equivalent in value to one-half of the executive's gross annual bonus (excluding any special bonuses) and the shares are held in trust and transferred to the executive if still employed by the company in three years time. It is intended that the value of deferred bonuses granted in respect of the 2000 financial year will, except in a very limited number of exceptional circumstances where higher levels of award are justified, be of a similar value. It is anticipated that around 300 senior executives will receive deferred bonuses.

The ESP, PSP and DBP use existing shares only.

BT Share Option Scheme

The BT Share Option Scheme for senior executives was not replaced after its expiry in January 1995. The last options were granted in December 1994.

Details of outstanding options at the end of the 2000 financial year are shown on page 53.

Pensions

For the executive directors and most other senior executives, the policy is to provide pension benefits of one-thirtieth of final salary for each year of service with a two-thirds pension for the surviving spouse. The executive directors and certain other senior executives have undertakings of pension benefits of two-thirds of final salary at normal retirement age with a pension of two-thirds of the director's pension for the surviving spouse. On death in service a lump sum equal to four times annual salary is payable together with a pension of two-thirds of the director's prospective pension for the surviving spouse. Pensions are based on salary alone – bonuses, other benefits and long-term incentives are excluded.

The primary means of providing pensions is through the BT Pension Scheme (BTPS).

Other benefits

Other benefits include car and driver, personal telecommunications facilities, medical and dental cover for the director and immediate family and financial counselling. The company has a permanent health insurance policy to provide cover for the Chairman and full-time executive directors and members of the *Group Executive Committee*, who may become permanently incapacitated.

Other incentive plans

An incentive plan has been established for senior executives in BT Cellnet, the mobile phone operator which is wholly owned by BT. This plan specifically links an element of these executives' long-term remuneration to the performance of BT Cellnet over a three and a half year period, rather than to the performance of the BT group as a whole. All the awards are cash awards. It replaces participation in the DBP for the executives concerned for so long as it operates.

The *Remuneration Committee* reviewed this plan and will review any long-term plans to be established within the group, to ensure they are consistent with BT's overall remuneration policy for its senior executives.

New long-term incentive plans

As BT continues to expand its operations outside the UK, it needs to compete for key people in the global market. In a fiercely competitive business environment, where the internet, multimedia, mobile and solutions areas are expanding, remuneration packages are significantly influenced by US practice. The ESP and PSP no longer provide the flexibility needed to deliver the rewards required to recruit and retain the people with the skills to meet the needs of the business. Shareholders will therefore

be asked to approve a new equity incentive portfolio at the 2000 AGM.

The new portfolio will comprise the following elements:

- Incentive Shares which will be the main element will be granted annually to executive directors, senior executives and key employees. Awards will vest after a minimum performance period of three years if the participant is still employed by the group and the performance target has been met. Awards will normally vest if BT's TSR is at median point against the FT-SE 100 and all the shares will vest if BT's TSR reaches the upper quartile of the comparator group. To encourage exceptional performance, the *Remuneration Committee* will retain discretion to reward performance in the upper quartile. At the end of the three-year period, if the performance is in the upper quartile, the *Remuneration Committee* may increase the award of shares vesting. If the performance is in the top ten companies, the increase may be up to double the amount of the shares vesting. The discretion will only be exercised if the *Remuneration Committee* is also satisfied that there has been a significant improvement in the company's underlying financial performance. The *Remuneration Committee* will take account of BT's Corporate Scorecard targets and its earnings per share growth. In the 2001 financial year, it is anticipated that most awards will have a value of up to 100% of salary with a maximum of 200% of salary.
- Retention Shares will be granted to individuals with critical skills as a recruitment or retention tool. Awards of shares may or may not be linked to appropriate performance targets, depending on the circumstances of the individual case. The retention period before the shares vest will be flexible. Most awards of Retention Shares are likely to have a value of up to 100% of salary. Current executive directors will not receive Retention Shares.
- Share Options will be granted to individuals working in parts of the business, e.g. internet, or in parts of the world, especially the US, where options would be more appropriate than share awards. The grant or exercise of options may be linked to a performance target. Market practice, as far as the link of the exercise of options to performance is concerned, will be kept under review. The length of the period before an option can be exercised will be flexible. The vesting of options may be phased over three years. The initial value of the options is likely to be up to four times salary with most options having a value of two times salary or less.
- No individual will participate in all three plans and only in exceptional circumstances would an individual receive an award both of Incentive Shares and Share Options.
- The portfolio will use either existing shares bought in the market or newly-issued shares, except awards of Retention Shares, which will use existing shares only.

Subject to shareholder approval being obtained to the new portfolio, no further awards will be granted under the ESP and PSP. In the 2001 financial year, awards will be granted under the new portfolio and under the DBP.

Service agreements

It is the company's policy that the Chairman and the executive directors have service agreements providing for one year's notice, except where it is necessary to offer longer periods to new directors from outside BT or circumstances make it appropriate to offer a longer fixed term. All the service agreements contain provisions dealing with the removal of a director through poor performance. They also deal with payments to which the director would be entitled in the event of early termination of the contract by BT.

Outside appointments

The Committee believes there are significant benefits to both the company and the individual from executive directors accepting non-executive directorships of companies outside BT. The Committee will consider up to two external appointments for which a director may retain the fees.

Non-executive directors' contracts of appointment

Non-executive directors have contracts of appointment. These cover, amongst other things, the initial terms for which they are appointed, a general statement of their role and duties, the fees they will receive as a director and supplementary fees for additional work such as being a member of a Board Committee.

Non-executive directors are normally appointed for an initial period of three years and are then subject to 12 months' notice. Further details of their appointment arrangements are set out on page 45 in the section of this report dealing with corporate governance issues.

Non-executive directors' remuneration

Two-thirds of the BT Board are non-executive directors who, in accordance with BT's articles of association and as recommended by the Code, cannot individually vote on their own remuneration. Therefore, the Board does not consider it appropriate for the whole Board to determine non-executive remuneration. This is set by the Chairman and the Chief Executive after considering advice on appropriate levels of remuneration.

The basic fee for non-executive directors, which includes membership of one committee, is £30,000 per year. Additional fees for membership of Board committees range from £3,000 to £5,000 per year. Committee chairmen receive an additional fee of £2,000 a year for each

committee they chair. The Deputy Chairman is paid an inclusive annual fee of £75,000 (1999 – £75,000).

To align further the interests of the non-executive directors with those of shareholders, the company's policy is to encourage these directors to purchase, on a voluntary basis, £5,000 of BT shares each year. The directors are asked to hold those shares until they retire from the Board.

Remuneration review

Directors' remuneration

Sir Iain Vallance has been part-time Chairman since 1 August 1998. His annual salary was increased to £325,000 on 1 August 1999 (from £275,000). From 1 April 1999, 12 months after their previous increase, Sir Peter Bonfield's salary was increased from £617,500 to £725,000 and Robert Brace's salary increased from £330,000 to £355,000. Bill Cockburn's salary was increased from 1 June 1999 to £495,000 (previously £465,000).

From 1 April 2000, Sir Peter Bonfield's salary was increased to £780,000 a year and Robert Brace's to £380,000. Bill Cockburn's salary will be increased to £520,000 from June 2000. The salary of Sir Iain Vallance will be increased to £350,000 from 1 August 2000 for a period of two years.

Sir Peter Bonfield's annual bonus award in respect of the 2000 financial year is based wholly on the achievement of group-wide objectives and results measured against the overall BT Corporate Scorecard. His "on target" bonus for the 2000 financial year was 65% of salary, subject to a maximum of 100% of salary.

For Robert Brace, Bill Cockburn and other members of the Group Executive Committee, annual bonus awards are based on the achievement of a mix of group, divisional and personal objectives.

Robert Brace's "on target" bonus for the 2000 financial year was 40% of salary, subject to a maximum of 60% and Bill Cockburn's bonus for "on target" was 50% of salary, subject to a maximum of 75%.

Annual bonus awards to executive directors for the year under review ranged from 41% to 69% of salary.

In recognition of his contribution to the global venture with AT&T and its completion in January 2000, Sir Iain Vallance received a special bonus of £250,000. He participated again in the bonus scheme for the 2000 financial year and was awarded a bonus of £150,000. Sir Iain will be granted a terminal bonus of £600,000 on the expiry of his contract. Sir Iain does not participate in the long-term incentive plans.

Directors' remuneration (excluding pension arrangements and deferred bonuses) of the directors was as follows:

	Salary and fees		Annual and special bonuses		Benefits excluding pension*(a)*		Total*(c)*	
	2000 £000	1999 £000	**2000 £000**	1999 £000	**2000 £000**	1999 £000	**2000 £000**	1999 £000
Sir Iain Vallance	**308**	349	**400**	300	**38**	45	**746**	694
Sir Peter Bonfield	**725**	617	**500**	725	**53**	37	**1,278**	1,379
R P Brace	**355**	329	**145**	210	**24**	26	**524**	565
B Cockburn	**490**	400	**250**	280	**33**	15	**773**	695
Lord Marshall	**75**	75	**–**	–	**–**	–	**75**	75
H Alexander	**35**	24	**–**	–	**–**	–	**35**	24
J I W Anderson	**54**	46*(b)*	**–**	–	**–**	–	**54**	46
L R Hughes	**8**	–	**–**	–	**–**	–	**8**	–
N Isdell	**32**	22	**–**	–	**–**	–	**32**	22
J F de Moller	**20**	–	**–**	–	**–**	–	**20**	–
J K Oates	**40**	36	**–**	–	**–**	–	**40**	36
Sir John Weston	**38**	16	**–**	–	**–**	–	**38**	16
M Argent	**–**	30	**–**	–	**–**	1	**–**	31
Sir Ewen Fergusson	**–**	33	**–**	–	**–**	–	**–**	33
	2,180	1,977	**1,295**	1,515	**148**	124	**3,623**	3,616

(a) Includes other benefits as described above. In addition to his company car, Sir Iain Vallance has use of a car in Scotland.

(b) Payments to non-executive directors include fees paid to their principal employer of £nil (1999 – £9,500).

(c) In addition, deferred bonuses payable in shares in three years time, provided they are still employed by the company, were awarded to Sir Peter Bonfield – £500,000 (1999 – £1,150,000), Robert Brace – £72,500 (1999 – £82,500) and Bill Cockburn – £nil (1999 – £280,000).
When added to the amounts paid or currently payable for the 2000 financial year, in the table above, the total remuneration of Sir Peter Bonfield was £1,778,000 (1999 – £2,529,000), Robert Brace £596,500 (1999 – £647,500) and Bill Cockburn £773,000 (1999 – £975,000).

In the 1999 financial year, Robert Brace exercised options over 175,855 shares, resulting in a gain of £891,000. Sir Alan Rudge, who retired as a director on 31 October 1997, exercised options over 14,593 shares resulting in a gain of £41,000. (The gains are based on the amount by which the market value of the shares on the date of exercise exceeded the option price and also included the employee compensation for the special dividend (see Note 4 to the financial statements).

On 2 August 1999, total awards of 65,724 and 78,874 shares under the ESP vested in Robert Brace and Sir Alan Rudge. The value of those shares on the vesting date was £694,966 and £834,014 respectively.

On 2 August 1999, an award of 29,878 shares under the PSP vested in Bill Cockburn. The value of those shares on the vesting date was £315,930.

June de Moller was appointed a director on 1 September 1999 and Louis R Hughes on 1 January 2000. In the previous year, Malcolm Argent retired on 31 December 1998 and Sir Ewen Fergusson on 31 March 1999. Yve Newbold, who retired in June 1997, remains on the Community Support Committee, for which she received fees of £5,000 in the 2000 financial year (1999 – £5,000).

Pensions

The Chairman, Robert Brace and Bill Cockburn are members of the BTPS. In addition to the company's contribution, individuals contributed 6% of salary in the 2000 financial year. Sir Peter Bonfield's pension arrangements are non-approved by the Inland Revenue and unfunded.

When an individual will not achieve the target level of pension benefit at normal retirement age because of the Government earnings cap for calculation of pension benefits, the company may make up the shortfall by purchasing additional service in the BTPS and/or through non-approved, unfunded arrangements.

From 1 August 1998, Sir Iain Vallance, when he retired from full-time employment with the company, has been entitled to receive an annual pension in accordance with his supplementary pension arrangements. This pension will be increased in line with future inflation. The pension paid in the 2000 financial year amounted to £340,433 (1999 – £222,222). Whilst Sir Iain is part-time Chairman, he is a deferred member of the BTPS and his pension is being paid entirely by the company. Sir Iain's pension arrangements entitle his surviving widow to his full pension until July 2003 and to two-thirds of his pension after that date.

Sir Peter Bonfield's pension arrangements provide for a pension of two-thirds of his final salary at 60, inclusive of any retained benefits from his previous employment, and a surviving spouse's pension of two-thirds of his pension. He would have been entitled to a pension of 54% of salary if he had retired on 31 March 2000. If his retirement occurs before 2004, the percentage of salary used to calculate the pension will increase on a uniform basis to the target at 60.

Bill Cockburn is a member of the BTPS and has an unfunded and non-approved arrangement to meet the shortfall resulting from the pensions' cap. In addition, he has a funded non-approved retirement benefits scheme transferred from his previous employer to which the company made monthly contributions of £10,000 from 1 March 1998 to 30 September 1998. Bill Cockburn's salary was reduced, at his request, by £10,000 a month during this period.

The table below shows the increase in the accrued benefits to which each director has become entitled during the year and the transfer value of the increase in accrued benefit.

	Increase in accrued pension during year or to date of retirement in year*(a)*		Total accrued pension at year end or at date of retirement, if earlier*(b)*		Transfer value of increase in accrued benefit*(c)*	
	2000 £000	1999 £000	**2000 £000**	1999 £000	**2000 £000**	1999 £000
Sir Iain Vallance *(d)*	**N/A**	1	**N/A**	333	**N/A**	5
Sir Peter Bonfield	**119**	30	**192**	72	**2,204**	500
R P Brace	**17**	17	**137**	118	**246**	205
B Cockburn	**17**	15	**41**	23	**317**	258

(a) The increase in accrued pension during the year excludes any increase for inflation.

(b) The pension entitlement is that which would be paid annually on retirement at normal retirement age based on service to the end of the year or date of retirement, if earlier.

(c) The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 and excludes directors' contributions. The transfer value represents a liability of the company rather than any remuneration due to the individual and cannot be meaningfully aggregated with annual remuneration, as it is not money the individual is entitled to receive.

(d) Based on service to 31 July 1998, after which no further pension entitlements accrue.

Directors' interests

The interests of directors and their families in the company's shares at 31 March 2000 and 1 April 1999, or date of appointment if later, are shown below:

	No. of shares	
Beneficial holdings	**2000**	1999
Sir Iain Vallance	**208,504**	208,452
Sir Peter Bonfield	**10,583***(a)*	9,465*(a)*
R P Brace	**184,004***(a)*	144,283*(a)*
B Cockburn	**22,865**	4,181
Lord Marshall	**2,000**	2,000
H Alexander	**930**	–
J I W Anderson	**5,910**	4,155
L R Hughes	**2,100**	2,100*(b)*
N Isdell	**2,500**	2,000
J F de Moller	**1,500**	1,500*(b)*
J K Oates	**3,944**	3,878
Sir John Weston	**1,030**	1,008
Total	**445,870**	383,022

(a) Includes 9,393 shares (1999 – 9,245 shares) purchased and held by Sir Peter Bonfield and 15,005 shares (1999 – 22,200 shares) by Robert Brace in the ESP (see note 30 to the financial statements).

(b) At date of appointment.

Details of share options held at 31 March 2000 under the share option schemes are as follows:

	Number of shares under option	Option Exercise Price per Share	Usual date from which exercisable	Usual expiry date
	31 March 2000			
Sir Iain Vallance	**57,957**	333p	09/03/95	09/03/02
	20,770	430p	04/03/96	04/03/03
	3,760	375p	08/12/97	08/12/04
	82,487			
Sir Peter Bonfield	**6,460**	267p	14/08/01	14/02/02
R P Brace	**24,890**	430p	04/03/96	04/03/03
	30,180	460p	15/11/96	15/11/03
	23,470	375p	08/12/97	08/12/04
	3,876	267p	14/08/01	14/02/02
	1,332	518p	14/08/03	14/02/04
	83,748			
B Cockburn	**3,330**	518p	14/08/03	14/02/04
Total	**176,025**			

All of the above options were granted for nil consideration. No options were granted or exercised during the year. The above table also represents the position at 1 April 1999.

Unrealised gains on the above share options at 31 March 2000, based on the market price of the shares at that date, excluding the employee compensation for the special dividend which is discretionary in respect of directors' share options, were as shown below:

	Options exercisable			Options not exercisable		
		Unrealised gains			Unrealised gains	
	Number of shares	**2000 £000**	1999*(a)* £000	Number of shares	**2000 £000**	1999*(a)* £000
Sir Iain Vallance	82,487	**673**	538	–	**–**	–
Sir Peter Bonfield	–	**–**	–	6,460	**59**	48
R P Brace	78,540	**589**	460	5,208	**44**	35
B Cockburn	–	**–**	–	3,330	**22**	16

(a) Based on options outstanding at 31 March 1999 and the market price of the shares at that date.

The market price of the shares at 31 March 2000 was 1,175p (1999 – 1,011p) and the range during the 2000 financial year was 889p to 1,513p.

Details of the company's ordinary shares provisionally awarded to directors, as participants under the ESP and PSP (note 30 to the financial statements), are as follows:

					Total number of award shares*(a)*	Range of value of award*(d)*	
	1 April 1999	Awarded	Vested	Dividends reinvested	**31 March 2000**	Minimum £000	Maximum £000
Sir Peter Bonfield	318,840	65,361	–	6,006	**390,207**	589	4,585
R P Brace *(b)*	299,523	32,004	65,724	4,151	**269,954**	408	3,172
B Cockburn *(c)*	84,016	44,625	29,878	1,492	**96,935**	–	1,139
Sir Alan Rudge *(b)*	126,610	–	78,874	744	**48,480**	114	570
Total	828,989	141,990	174,476	12,393	**805,576**	1,111	9,466

(a) Excluding shares purchased by each director and held under the ESP (see page 53).

(b) On 2 August 1999, total awards of 65,724 and 78,874 shares under the ESP vested in Robert Brace and Sir Alan Rudge, respectively. The five-year performance cycle for those awards ended on 31 July 1999 and, on the basis of BT's TSR position against the FT-SE 100, 100% of the shares under award, including reinvested dividends, vested. The value of those shares on the vesting date was £694,966 for Robert Brace and £834,014 for Sir Alan Rudge.

(c) On 2 August 1999, an award of 29,878 shares under the PSP vested in Bill Cockburn. The three-year performance cycle for that award ended on 31 July 1998 and, on the basis of BT's TSR against the FT-SE 100 at the end of the three-year cycle, 90% of the shares under award, including reinvested dividends, vested. The remaining 3,320 shares under award lapsed. Under the rules of the PSP, vesting of the awards must take place within the two years following the end of the performance cycle. The value of those shares on the vesting date was £315,930.

(d) For the ESP based on the market value of the company's shares at 31 March 2000. The minimum figure represents those shares held at 31 March 2000 which will transfer to each director at the end of year five of the plan (2000 to 2004). The maximum figure represents all shares held at 31 March 2000 which will transfer to each director at the end of year five of the plan (2000 to 2004) provided the corporate performance measure has been fully met. Normally, shares will transfer only if the individual is still employed by the group. However, the plan gives discretion to preserve awards of shares after retirement.

Details of shares which would vest based on BT's TSR compared with the other companies in the FT-SE 100 for the relevant performance period up to 31 March 2000 are as follows:

			31 March 2000		31 March 1999	
	No. of shares under award	Expected vesting date	TSR position	Percentage of shares vesting	TSR position	Percentage of shares vesting
Sir Peter Bonfield	146,232	2001	3	100	4	100
	103,036	2002	3	100	4	100
	74,556	2003	5	100	3	100
	66,383	2004	28	100	–	–
R P Brace	41,552	2000	2	100	10	100
	89,359	2001	3	100	4	100
	68,691	2002	3	100	4	100
	37,849	2003	5	100	3	100
	32,503	2004	28	100	–	–
B Cockburn	51,612	2003	5	100	3	100
	45,323	2004	28	100	–	–
Sir Alan Rudge	48,480	2000	2	100	10	100

The following deferred bonuses have been awarded to the directors under the DBP. These shares will normally be transferred to participants at the end of the three-year deferred period if those participants are still employed by BT.

	1 April 1999	Awarded	Dividends reinvested	**31 March 2000**	Market value 2000 £000	1999 £000
Sir Peter Bonfield	18,352	103,677	1,909	**123,938**	1,456	186
R P Brace	6,605	7,437	218	**14,260**	168	67
B Cockburn	6,605	25,243	497	**32,345**	380	67

At 31 March 2000, Sir lain Vallance, Sir Peter Bonfield, Robert Brace and Bill Cockburn each had a non-beneficial interest in 78,454 shares (1999 – 53,912) purchased by BT Employee Shares Trustees Limited for allocation to employees under the BT Employee Share Ownership Scheme, and 19,292,068 shares (1999 – 6,947,296) held in trust by Ilford Trustees (Jersey) Limited for allocation to employees under the employee share schemes.

No director had any interest in the debentures of the company or in the share capital or debentures of its subsidiaries.

Subsequent to 31 March 2000, Robert Brace has notified the company of the acquisition of beneficial holdings of a total of 7 shares under personal equity plans. There have been no other changes in the directors' interests in the share capital, including options to subscribe for shares, or in the debentures of the company and its subsidiaries between 31 March 2000 and 24 May 2000.

Report on directors' remuneration

Directors' service agreements and contracts of appointment

The dates on which the Chairman's and each current executive director's initial service agreement commenced and the current expiry dates are as follows:

Chairman and executive directors	Commencement date of initial service contract	Expiry date of current service contract
Sir Iain Vallance	6 August 1984	31 July 2002*(a)*
Sir Peter Bonfield	1 January 1996	*(b)*
R P Brace	1 October 1993	*(b)*
B Cockburn	1 April 1998	*(b)*

(a) Sir Iain Vallance entered into a new contract on 1 August 1999 which continues to 31 July 2002.

(b) Each director entered into a new contract on 1 August 1999, terminable on 12 months' notice by either the company or the director.

The dates on which current non-executive directors' contracts of appointment commenced and the current expiry dates are as follows:

Non-executive director	Commencement date of initial contract	Expiry date of current contract
Lord Marshall	1 April 1995	31 March 2001
H Alexander	1 June 1998	31 May 2001
J I W Anderson	1 November 1995	*(a)*
L R Hughes	1 January 2000	31 December 2002
N Isdell	1 July 1998	30 June 2001
J F de Moller	1 September 1999	31 August 2002
J K Oates	1 June 1994	*(a)*
Sir John Weston	1 October 1998	30 September 2001

(a) Terminable on 12 months' notice by either the company or the director or on one month's notice effective on the sixth anniversary of initial appointment.

There are no other service agreements or material contracts, existing or proposed, between the company and the directors. There are no arrangements or understandings between any director or executive officer and any other person pursuant to which any director or executive officer was selected to serve. There are no family relationships between the directors.

By order of the Board

Lord Marshall of Knightsbridge
Deputy Chairman and Chairman of Remuneration Committee
24 May 2000

Statement of directors' responsibility for preparing the financial statements

The directors are required by law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss and cash flows of the group for that period.

The directors consider that, in preparing the financial statements for the year ended 31 March 2000 on pages 59 to 110 the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. The directors also consider that all applicable accounting standards have been followed and confirm that the financial statements have been prepared on the going concern basis.

The directors are responsible for ensuring that the company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors are also responsible for taking such steps that are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The auditors' responsibilities are stated in their report to the shareholders.

Report of the auditors to the shareholders of British Telecommunications plc

We have audited the financial statements on pages 59 to 110 which have been prepared under the historical cost convention and the accounting policies set out on pages 59 to 61.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 57, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on page 45 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards generally accepted in the United Kingdom and in the United States. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the company and the group at 31 March 2000 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.
- present fairly, in all material respects, the consolidated financial position of the group as at 31 March 2000 and 31 March l999, and the results of its operation and its cash flow for the years ended 31 March 2000, 31 March 1999 and 31 March 1998 in conformity with accounting principles generally accepted in the United Kingdom. These principles differ in certain respects from accounting principles generally accepted in the United States. The effect of the differences in the determination of net income, shareholders' equity and cash flows is shown on pages 103 to 106.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London
24 May 2000

Accounting policies

I Basis of preparation of the financial statements

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards and the provisions of the Companies Act 1985. The group financial statements consolidate those of the company and all of its subsidiary undertakings. Where the financial statements of subsidiary undertakings, associates and joint ventures do not conform with the group's accounting policies, appropriate adjustments are made on consolidation in order to present the group financial statements on a consistent basis. The principal subsidiary undertakings' financial years are all coterminous with those of the company, with the exception of one newly acquired group at 31 March 2000. References to the "company" are to British Telecommunications public limited company, and references to "BT" or the "group" are to the company and its subsidiaries, or any of them as the context may require.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reporting period. Actual results could differ from those estimates. Estimates are used principally when accounting for income, provision for doubtful debts, payments to telecommunication operators, depreciation, employee pension schemes and taxes. Certain comparative figures have been restated to conform with revised presentation and reclassification of figures in the year ended 31 March 2000.

II Turnover

Group turnover, which excludes value added tax and other sales taxes, comprises the value of services provided and equipment sales by group undertakings, excluding those between them.

Total turnover is group turnover together with the group's share of its associates' and joint ventures' turnover, excluding the group's share of transactions between the group and its principal joint venture, Concert BV.

III Research and development

Expenditure on research and development is written off as incurred.

IV Interest

Interest payable, including that related to financing the construction of tangible fixed assets, is written off as incurred. Discounts or premiums and expenses on the issue of debt securities are amortised over the term of the related security and included within interest payable. Premiums payable on early redemptions of debt securities, in lieu of future interest costs, are written off when paid.

V Foreign currencies

On consolidation, assets and liabilities of foreign undertakings are translated into sterling at year-end exchange rates. The results of foreign undertakings are translated into sterling at average rates of exchange for the year.

Exchange differences arising from the retranslation at year-end exchange rates of the net investment in foreign undertakings, less exchange differences on borrowings which finance or provide a hedge against those undertakings, are taken to reserves and are reported in the statement of total recognised gains and losses.

All other exchange gains or losses are dealt with through the profit and loss account.

VI Intangibles

(a) Goodwill

Goodwill, arising from the purchase of subsidiary undertakings and interests in associates and joint ventures, represents the excess of the fair value of the purchase consideration over the fair value of the net assets acquired.

For acquisitions completed on or after 1 April 1998, the goodwill arising is capitalised as an intangible asset or, if arising in respect of an associate or joint venture, recorded as part of the related investment. In most cases, the goodwill is amortised on a straight line basis from the time of acquisition over its useful economic life. Where special circumstances exist such that amortising goodwill over a finite period would not give a true and fair view, that goodwill is not amortised. The economic life is normally presumed to be a maximum of 20 years.

For acquisitions on or before 31 March 1998, the goodwill is written off on acquisition against group reserves.

If an undertaking is subsequently divested, the appropriate unamortised goodwill or goodwill written off to reserves is dealt with through the profit and loss account in the period of disposal as part of the gain or loss on divestment.

(b) Other intangibles

Licence fees paid to governments, which permit telecommunication activities to be operated for defined periods, are amortised from the later of the start of the licence period or launch of service to the end of the licence period on a straight-line basis.

Accounting policies

VII Tangible fixed assets

Tangible fixed assets are stated at historical cost less depreciation.

(a) Cost

Cost in the case of network services includes contractors' charges and payments on account, materials, direct labour and directly attributable overheads.

(b) Depreciation

Depreciation is provided on tangible fixed assets on a straight line basis from the time they are available for use, so as to write off their costs over their estimated useful lives taking into account any expected residual values. No depreciation is provided on freehold land.

The lives assigned to other significant tangible fixed assets are:

Freehold buildings –	40 years
Leasehold land and buildings –	Unexpired portion of lease or 40 years, whichever is the shorter
Transmission equipment:	
duct –	25 years
cable –	3 to 25 years
radio and repeater equipment –	2 to 25 years
Exchange equipment –	2 to 13 years
Computers and office equipment –	2 to 6 years
Payphones, other network equipment, motor vehicles and cableships –	2 to 20 years

VIII Fixed asset investments

Investments in subsidiary undertakings, associates and joint ventures are stated in the balance sheet of the company at cost less amounts written off. Amounts denominated in foreign currency are translated into sterling at year-end exchange rates.

Investments in associates and joint ventures are stated in the group balance sheet at the group's share of their net assets, together with any attributable unamortised goodwill on acquisitions arising on or after 1 April 1998.

The group's share of profits less losses of associates and joint ventures is included in the group profit and loss account.

Investments in other participating interests and other investments are stated at cost less amounts written off.

IX Stocks

Stocks mainly comprise items of equipment, held for sale or rental, consumable items and work in progress on long-term contracts.

Equipment held and consumable items are stated at the lower of cost and estimated net realisable value, after provisions for obsolescence.

Work in progress on long-term contracts is stated at cost, after deducting payments on account, less provisions for any foreseeable losses.

X Redundancy costs

Redundancy costs arising from periodic reviews of staff levels are charged against profit in the year in which employees agree to leave the group.

If the most recent actuarial valuation of the group's pension scheme shows a deficit, which exceeds the amount of provision for pension liabilities in the balance sheet, the estimated cost of providing incremental pension benefits in respect of employees leaving the group is charged against profit in the year in which the employees agree to leave the group, within redundancy charges.

XI Pension scheme

The group operates a defined benefit pension scheme, which is independent of the group's finances, for the substantial majority of its employees. Actuarial valuations of the scheme are carried out as determined by the trustees at intervals of not more than three years, the rates of contribution payable and the pension cost being determined on the advice of the actuaries, having regard to the results of these valuations. In any intervening years, the actuaries review the continuing appropriateness of the contribution rates.

The cost of providing pensions is charged against profits over employees' working lives with the group using the projected unit method. Variations from this regular cost are allocated on a straight-line basis over the average remaining service lives of current employees to the extent that these variations do not relate to the estimated cost of providing incremental pension benefits in the circumstances described in X above.

Interest is accounted for on the provision in the balance sheet which results from differences between amounts recognised as pension costs and amounts funded. The regular pension cost, variations from the regular pension cost, described above, and interest are all charged within staff costs.

XII Taxation

The charge for taxation is based on the profit for the year and takes into account deferred taxation. Provision is made for deferred taxation only to the extent that timing differences are expected to reverse in the foreseeable future, with the exception of timing differences arising on pension costs where full provision is made irrespective of whether they are expected to reverse in the foreseeable future.

XIII Financial instruments

(a) Debt instruments

Debt instruments are stated at the amount of net proceeds adjusted to amortise any discount evenly over the term of the debt.

(b) Derivative financial instruments

The group uses derivative financial instruments to reduce exposure to foreign exchange risks and interest rate movements. The group does not hold or issue derivative financial instruments for financial trading purposes.

Criteria to qualify for hedge accounting

The group considers its derivative financial instruments to be hedges when certain criteria are met. For foreign currency derivatives, the instrument must be related to actual foreign currency assets or liabilities or a probable commitment and whose characteristics have been identified. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the group's operations. For interest rate derivatives, the instrument must be related to assets or liabilities or a probable commitment, such as a future bond issue, and must also change the interest rate or the nature of the interest rate by converting a fixed rate to a variable rate or vice versa.

Accounting for derivative financial instruments

Principal amounts underlying currency swaps are revalued at exchange rates ruling at the date of the group balance sheet and are included in debtors or creditors.

Interest differentials, under interest rate swap agreements used to vary the amounts and periods for which interest rates on borrowings are fixed, are recognised by adjustment of interest payable.

The forward exchange contracts used to change the currency mix of net debt are revalued to balance sheet rates with net unrealised gains and losses being shown as part of debtors or creditors. The difference between spot and forward rate for these contracts is recognised as part of net interest payable over the term of the contract.

The forward exchange contracts hedging transaction exposures are revalued at the prevailing forward rate on the balance sheet date with net unrealised gains and losses being shown as debtors and creditors.

Instruments that form hedges against future fixed-rate bond issues are marked to market. Gains or losses are deferred until the bond is issued when they are recognised evenly over the term of the bond.

Group profit and loss account for the year ended 31 March 2000

	Notes	2000 £m	1999 £m	1998 £m
Total turnover – ongoing activities	2	**21,903**	18,223	16,039
– discontinued activities	2	**–**	–	1,372
Total turnover, including discontinued activities	2	**21,903**	18,223	17,411
Group's share of joint ventures' turnover	2	**(1,784)**	(561)	(147)
Group's share of associates' turnover	2	**(1,580)**	(709)	(1,624)
Trading between group and principal joint venture	2	**176**	–	–
Group turnover – ongoing activities	2	**18,715**	16,953	15,640
Other operating income *(a)*	3	**242**	168	372
Operating costs *(b)(c)(d)*	4	**(15,359)**	(13,305)	(12,355)
Group operating profit – ongoing activities		**3,598**	3,816	3,657
Group's share of operating loss of joint ventures	5	**(427)**	(342)	(199)
Group's share of operating profit of associates	5	**27**	–	3
Total operating profit:				
Ongoing activities		**3,198**	3,474	3,436
Discontinued activities		**–**	–	25
		3,198	3,474	3,461
Profit on sale of fixed asset investments *(e)*	6	**–**	1,107	–
Profit on sale of group undertakings	6	**126**	–	63
Interest receivable	7	**193**	165	162
Interest payable	8	**(575)**	(451)	(472)
Profit on ordinary activities before taxation		**2,942**	4,295	3,214
Tax on profit on ordinary activities:				
Corporation and similar taxes	9	**(897)**	(1,293)	(977)
Windfall tax	9	**–**	–	(510)
	9	**(897)**	(1,293)	(1,487)
Profit on ordinary activities after taxation		**2,045**	3,002	1,727
Minority interests	10	**10**	(19)	(25)
Profit for the financial year		**2,055**	2,983	1,702
Dividends	11	**(1,426)**	(1,322)	(1,216)
Retained profit for the financial year	25	**629**	1,661	486
Basic earnings per share	12	**31.7p**	46.3p	26.6p
Diluted earnings per share	12	**30.9p**	45.3p	26.2p
Profit before goodwill amortisation, exceptional items and taxation		**3,100**	3,274	2,976
Basic earnings per share before goodwill amortisation and exceptional items	12	**34.2p**	35.0p	31.7p
Diluted earnings per share before goodwill amortisation and exceptional items	12	**33.4p**	34.2p	31.2p
(a) Including MCI break up fee net of expenses in 1998		**–**	–	238
(b) Including redundancy charges		**59**	124	106
(c) Including exceptional costs relating to the disengagement from MCI		**64**	69	–
(d) Including exceptional costs relating to the proposed closure of the BT Cellnet analogue network in 2000		**47**	–	–
(e) Including gain on MCI shares sold in 1999		**–**	1,133	–

Group statement of total recognised gains and losses for the year ended 31 March 2000

	2000 £m	1999 £m	1998 £m
Profit (loss) for the financial year:			
Group	**2,576**	3,362	1,951
Joint ventures	**(480)**	(362)	(202)
Associates	**(41)**	(17)	(47)
Total profit for the financial year	**2,055**	2,983	1,702
Currency movements arising on consolidation of non-UK:			
Subsidiaries	**(27)**	3	(16)
Joint ventures	**(141)**	27	(40)
Associates	**102**	15	(18)
Unrealised gain on transfer of assets and group undertakings to a joint venture	**159**	–	–
Total recognised gains and losses for the financial year	**2,148**	3,028	1,628

Group cash flow statement for the year ended 31 March 2000

	Notes	2000 £m	1999 £m	1998 £m
Net cash inflow from operating activities	13	**5,849**	6,035	6,071
Dividends from joint ventures and associates		**5**	2	5
Returns on investments and servicing of finance				
Interest received		**286**	111	168
Interest paid, including finance costs		**(449)**	(439)	(328)
Net cash outflow for returns on investments and servicing of finance		**(163)**	(328)	(160)
Taxation				
UK corporation tax paid		**(1,308)**	(359)	(1,625)
Windfall tax paid		**–**	(255)	(255)
Non-UK tax paid		**(3)**	(16)	(6)
Tax paid		**(1,311)**	(630)	(1,886)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		**(3,568)**	(3,220)	(3,020)
Sale of tangible fixed assets		**143**	143	127
Purchase of fixed asset investments		**(373)**	(103)	(265)
Disposal of fixed asset investments		**46**	4,226	50
Net cash inflow (outflow) for capital expenditure and financial investment		**(3,752)**	1,046	(3,108)
Acquisitions and disposals				
Purchase of subsidiary undertakings, net of £69m cash acquired (1999 – £5m overdraft, 1998 – £6m cash acquired)		**(4,065)**	(672)	(121)
Investments in joint ventures		**(933)**	(1,038)	(323)
Investments in associates		**(2,167)**	(288)	(1,057)
Repayment of loan to joint venture		**550**	–	–
Disposal of subsidiary undertakings		**206**	14	–
Sale of investments in joint ventures and associates		**4**	17	–
Net cash outflow for acquisitions and disposals		**(6,405)**	(1,967)	(1,501)
Equity dividends paid		**(1,364)**	(1,186)	(3,473)
Cash inflow (outflow) before management of liquid resources and financing		**(7,141)**	2,972	(4,052)
Management of liquid resources	14	**1,236**	(2,447)	2,247
Financing				
Issue of ordinary share capital		**127**	161	144
Minority shares issued		**432**	13	48
New loans		**1,473**	10	1,637
Loan repayments		**(587)**	(457)	(338)
Net increase (decrease) in short-term borrowings		**4,514**	(185)	303
Net cash inflow (outflow) from financing		**5,959**	(458)	1,794
Increase (decrease) in cash in the year		**54**	67	(11)
Decrease (increase) in net debt in the year	15	**(6,582)**	3,146	(3,860)

Balance sheets at 31 March 2000

	Notes	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Fixed assets					
Intangible assets	16	**5,777**	742	**–**	–
Tangible assets	17	**18,163**	17,854	**14,976**	15,022
Investments in joint ventures:	18				
Share of gross assets and goodwill		**3,631**	1,857		
Share of gross liabilities		**(1,045)**	(775)		
		2,586	1,082		
Investments in associates	18	**2,639**	418		
Other investments	18	**653**	332		
Total investments	18	**5,878**	1,832	**20,038**	12,371
Total fixed assets		**29,818**	20,428	**35,014**	27,393
Current assets					
Stocks		**225**	159	**182**	134
Debtors	19	**5,241**	3,995	**4,678**	5,976
Investments	20	**2,051**	3,278	**1,748**	1,897
Cash at bank and in hand		**253**	102	**15**	7
Total current assets		**7,770**	7,534	**6,623**	8,014
Creditors: amounts falling due within one year					
Loans and other borrowings	21	**5,650**	947	**12,551**	7,250
Other creditors	22	**9,235**	7,082	**6,942**	7,008
Total creditors: amounts falling due within one year		**14,885**	8,029	**19,493**	14,258
Net current liabilities		**(7,115)**	(495)	**(12,870)**	(6,244)
Total assets less current liabilities		**22,703**	19,933	**22,144**	21,149
Creditors: amounts falling due after more than one year					
Loans and other borrowings	21	**5,354**	3,386	**4,836**	4,289
Provisions for liabilities and charges	23	**1,056**	1,391	**802**	1,116
Minority interests		**498**	216	**–**	–
Capital and reserves					
Called up share capital	24	**1,627**	1,617	**1,627**	1,617
Share premium account	25	**1,580**	1,206	**1,580**	1,206
Other reserves	25	**933**	774	**747**	747
Profit and loss account	25	**11,655**	11,343	**12,552**	12,174
Total equity shareholders' funds	25	**15,795**	14,940	**16,506**	15,744
		22,703	19,933	**22,144**	21,149

The financial statements on pages 59 to 110 were approved by the board of directors on 24 May 2000 and were signed on its behalf by

Sir Iain Vallance *Chairman*
Sir Peter Bonfield CBE *Chief Executive*
R P Brace *Group Finance Director*

Notes to the financial statements

1. Changes in presentation

During the year ended 31 March 2000, the company has made the following changes in the presentation of its financial statements. Comparative figures have been restated. The previous analysis of turnover has been modified owing to the formation of Concert, the joint venture with AT&T, on 5 January 2000 (see note 18). From that date, international calls into, through and out of the UK and formerly handled by the company, have been handled by Concert. Additionally, certain of the company's multinational customers were transferred to Concert on the same date.

In the modified analysis, fixed network calls comprise calls within the UK and calls made from the UK to other countries. Receipts from other operators include revenues from non-UK operators for incoming and transit calls into and through the UK up to 5 January 2000 and revenues from Concert for terminating incoming international calls from that date.

The group's share of trading with Concert, primarily in respect of international calls made to and from the UK and for services provided to Concert in the UK for the multinational customers transferred to Concert, is eliminated in arriving at total turnover, including the proportionate share of the group's associates and joint ventures.

2. Turnover

	2000 £m	1999*(a)* £m	1998*(a)* £m
Fixed network calls	**5,908**	6,026	5,788
Exchange lines	**3,526**	3,351	3,190
Mobile communications	**2,170**	1,400	1,089
Receipts from other operators	**1,974**	1,417	1,249
Private services	**1,135**	1,140	1,131
Customer premises equipment supply	**847**	870	896
Yellow Pages and other directories	**642**	491	466
Other sales and services	**2,513**	2,258	1,831
Group turnover – ongoing activities	**18,715**	16,953	15,640
Group's share of associates' and joint ventures' turnover	**3,364**	1,270	1,771
Trading between group and principal joint venture	**(176)**	–	–
Total turnover, including discontinued activities	**21,903**	18,223	17,411
Less: discontinued activities *(b)*	**–**	–	(1,372)
Total turnover – ongoing activities	**21,903**	18,223	16,039

(a) Figures in the 1998 and 1999 financial years have been restated to conform with the method of classification used in the 2000 financial year.
(b) Discontinued activities relate to the group's former interest in MCI Communications Corporation (MCI) *(note 18(i))*.

Group's share of associates' and joint ventures' turnover comprised:

	2000 £m	1999 £m	1998 £m
Joint ventures – continuing activities	**1,784**	561	147
Associates:			
Continuing activities	**1,580**	709	252
Discontinued activities *(a)*	**–**	–	1,372
	1,580	709	1,624
Group's share of associates' and joint ventures' turnover	**3,364**	1,270	1,771

(a) Discontinued activities relate to the group's former interest in MCI Communications Corporation (MCI) *(note 18(i))*.

The group provides telecommunication services, principally in the UK, essentially operating as a unitary business. Its main services and products are fixed voice and data calls in the UK, the provision of fixed exchange lines to homes and businesses, the supply of mobile communication services and equipment to businesses and individuals, the provision of communication services in the UK to other operators, the provision of private services to businesses and the supply of telecommunication equipment for customers' premises. Approximately 5% (1999 – 4%, 1998 – 4%) of group turnover arose from operations outside the UK and approximately 18% (1999 – 10%, 1998 – 13%) of total turnover arose from activities outside the UK (note 33). Subsidiary undertakings acquired in the year ended 31 March 2000 contributed approximately 2% of group turnover in the year. Unaudited information concerning the group's classified directory business in the UK is shown on page 115 of this annual report.

3. Other operating income

	2000 £m	1999 £m	1998 £m
Seconded staff and administration and other services provided to Concert	**79**	–	–
Merger agreement break up fee *(a)*	**–**	–	273
Merger expenses written off	**–**	–	(35)
Other	**163**	168	134
Total other operating income	**242**	168	372

(a) The company received US$465 million on 12 November 1997 from WorldCom, Inc as a break up fee and partial reimbursement of expenses (the MCI merger break up fee) following the termination of the BT/MCI merger agreement on 9 November 1997 *(note 18(i))*. This income and the associated merger expenses were exceptional items in the year ended 31 March 1998.

4. Operating costs

	2000 £m	1999 £m	1998 £m
Staff costs:			
Wages and salaries	**3,754**	3,366	3,290
Social security costs	**316**	275	266
Pension costs (note 27)	**167**	176	177
Employee share ownership scheme *(a)*	**59**	64	64
Employee share option scheme compensation for special dividend *(b)*	**–**	–	120
Total staff costs	**4,296**	3,881	3,917
Own work capitalised	**(498)**	(428)	(424)
Depreciation (note 17)	**2,752**	2,581	2,395
Goodwill amortisation (note 16)	**89**	–	–
Payments to telecommunications operators	**3,086**	2,120	1,600
Other operating costs *(c)*	**5,634**	5,151	4,867
Total operating costs	**15,359**	13,305	12,355
Operating costs included the following:			
Research and development	**345**	268	307
Rental costs relating to operating leases, including plant and equipment hire £12 million (1999 – £9 million, 1998 – £19 million)	**189**	185	192
Foreign currency gains	**(26)**	(88)	(9)
Year 2000 computer issue costs	**67**	138	76
Exceptional costs relating to the proposed closure of the BT Cellnet analogue network:			
Depreciation	**37**	–	–
Other operating costs	**10**	–	–
	47	–	–
Exceptional costs relating to the disengagement from MCI:			
Staff costs	**13**	10	–
Depreciation	**11**	13	–
Payments to telecommunication operators	**18**	14	–
Other operating costs	**22**	32	–
	64	69	–

(a) Amount set aside for the year for allocation of ordinary shares in the company to eligible employees.

(b) Compensation for employees holding share options on 15 August 1997 in respect of the September 1997 special dividend.

(c) Includes redundancy charges of £59 million (1999 – £124 million, 1998 – £106 million). No charge for the cost of providing incremental pension benefits for employees taking early retirement was made in the years ended 31 March 2000, 1999 and 1998 in view of the combined surplus in the BT Pension Scheme disclosed by the actuarial valuation as at 31 December 1996 and the amount provided for pension costs within provisions for liabilities and charges.

The directors believe that the nature of the group's business is such that the analysis of operating costs required by the Companies Act 1985 is not appropriate. As required by the Act, the directors have therefore adapted the prescribed format so that operating costs are disclosed in a manner appropriate to the group's principal activity.

5. Group's share of operating profit (loss) of associates and joint ventures

The group's share of operating profit (loss) of associates and joint ventures comprised:

	2000 £m	1999 £m	1998 £m
Joint ventures – continuing activities	**(427)**	(342)	(199)
Associates:			
Continuing activities	**27**	–	(22)
Discontinued activities	**–**	–	25
	27	–	3
Group's share of operating loss of associates and joint ventures	**(400)**	(342)	(196)

The group's amortisation of goodwill for the year ended 31 March 2000 arising in its joint ventures and associates was £29 million (1999 – £12 million, 1998 – £nil) and £55 million (1999 – £5 million, 1998 – £nil), respectively. The group's share of results of associates from discontinued activities for the year ended 31 March 1998 included the group's share of a charge, made by MCI Communications Corporation, amounting to £63 million mainly for the exiting from and restructuring of customer contracts.

6. Profit on sale of fixed asset investments and group undertakings

In August 1999, the group sold BT Communications Services KK to Japan Telecom for a consideration of £170 million, on which a realised profit of £80 million has been recognised. In February 2000, BT's photonics research facility was sold at a profit of £35 million. Other gains during the year totalled £11 million. All these items have been classified as exceptional in the year ended 31 March 2000.

In September 1998, the group completed the sale of its interest in MCI for £4,159 million at a pre-tax profit of £1,133 million, after taking into account goodwill of £2,214 million originally written off on the acquisition of the group's interest in MCI in September 1994. A provision for impairment of £26 million against another fixed asset investment has been offset against this profit giving a net gain of £1,107 million. These two items have been classified as exceptional in the year ended 31 March 1999.

With the exception of Concert Communications (see note 18), the subsidiary undertakings disposed of in the years ended 31 March 2000, 1999 and 1998 had a negligible effect on the group's operating profit and cash flows and their net assets were immaterial to the group's financial position.

7. Interest receivable

	2000 £m	1999 £m	1998 £m
Income from listed investments	**13**	9	11
Other interest receivable	**169**	150	149
Group	**182**	159	160
Joint ventures	**4**	2	–
Associates	**7**	4	2
Total interest receivable	**193**	165	162

8. Interest payable

	2000 £m	1999 £m	1998 £m
Interest payable and similar charges in respect of:			
Bank loans and overdrafts	**87**	77	80
Other borrowings *(a)*	**401**	343	334
Group	**488**	420	414
Joint ventures	**47**	19	2
Associates	**40**	12	56
Total interest payable	**575**	451	472

(a) Includes £7 million premium charged in the year ended 31 March 1999 on the early redemption of US$200 million 9⅝% Guaranteed Debentures 2019 on 16 February 1999.

9. Tax on profit on ordinary activities

	2000 £m	1999 £m	1998 £m
United Kingdom:			
Corporation tax at 30% (1999 – 31%, 1998 – 31%)	**852**	1,200	984
Deferred taxation charge (credit) at 30%	**(3)**	71	17
Taxation on the group's share of results of associates	**3**	1	1
Deferred taxation provision released due to reduction in corporation tax rate	**–**	–	(25)
Prior year adjustments	**4**	–	(2)
Total UK taxation, excluding windfall tax	**856**	1,272	975
Non-UK taxation:			
Current	**5**	14	6
Taxation charge on the group's share of results of joint ventures	**11**	3	1
Taxation charge (credit) on the group's share of results of associates	**25**	4	(5)
Total corporation and similar taxes	**897**	1,293	977
Windfall tax	**–**	–	510
Total tax on profit on ordinary activities	**897**	1,293	1,487

The company's charge to the UK windfall tax, imposed on certain privatised companies in July 1997, was paid in two equal instalments in December 1997 and 1998. The charge was based on the group's profit for the financial years ended 31 March 1986 to 31 March 1989.

Total tax on profit on ordinary activities, excluding the windfall tax, varied from the amount computed by applying the corporation tax rate to profit on ordinary activities before taxation. The differences were attributable to the following factors:

	2000 %	1999 %	1998 %
UK corporation tax rate	**30.0**	31.0	31.0
Non-deductible depreciation and amortisation	**2.5**	0.6	0.6
Non-deductible non-UK losses	**2.7**	1.5	1.1
Unprovided deferred taxes on excess capital allowances	**(2.0)**	(0.7)	(0.9)
Lower effective tax on net foreign exchange gains	**(1.2)**	–	–
Effect of reduction in UK corporation tax rate on deferred tax provision	**–**	(0.1)	(0.8)
Lower effective tax on gain in MCI shares (1998 – MCI merger break up fee)	**–**	(2.4)	(0.7)
Lower effective tax on gain on disposal of group undertakings	**(1.2)**	–	–
Other	**(0.3)**	0.2	0.1
Effective corporation tax rate	**30.5**	30.1	30.4

9. Tax on profit on ordinary activities (continued)

Deferred taxation of £60 million (1999 – £30 million, 1998 – £30 million) arising on excess capital allowances was not provided in the year ended 31 March 2000.

The deferred taxation charge (credit) was mainly the result of the tax effect of timing differences as follows:

	2000 £m	1999 £m	1998 £m
Excess capital allowances	**(80)**	1	24
Pension provisions	**97**	81	20
Other timing differences	**(20)**	(11)	(27)
	(3)	71	17
Release due to reduction in corporation tax rate	**–**	–	(25)
Prior year adjustments *(a)*	**16**	5	(14)
Total deferred taxation charge (credit)	**13**	76	(22)

(a) Reclassification between deferred and current taxation on the profit on ordinary activities for prior years.

10. Minority Interests

	2000 £m	1999 £m	1998 £m
Minority interests in profits (losses):			
Group	**(15)**	15	25
Associates	**5**	4	–
Total minority interests	**(10)**	19	25

11. Dividends

	2000 pence per share	1999 pence per share	1998 pence per share	**2000 £m**	1999 £m	1998 £m
Interim dividend paid	**8.70**	8.10	7.55	**565**	523	480
Proposed final dividend	**13.20**	12.30	11.45	**861**	799	736
Total dividends	**21.90**	20.40	19.00	**1,426**	1,322	1,216

12. Earnings per share

The basic earnings per share are calculated by dividing the profit for the financial year attributable to shareholders by the weighted average number of shares in issue after deducting the company's shares held by employee share ownership trusts.

In calculating the diluted earnings per share, share options outstanding and other potential ordinary shares have been taken into account.

The weighted average number of shares in the years were:

	2000 millions of shares	1999 millions of shares	1998 millions of shares
Basic	**6,488**	6,442	6,387
Dilutive ordinary shares from share options outstanding and shares held in trust	**154**	150	97
Total diluted	**6,642**	6,592	6,484

12. Earnings per share (continued)

The items in the calculation of earnings per share before goodwill amortisation and exceptional items in the years were:

	2000 pence per share	1999 pence per share	1998 pence per share	**2000 £m**	1999 £m	1998 £m
Costs relating to the proposed closure of the BT Cellnet analogue network	**(0.7)**	–	–	**(47)**	–	–
Profit on sale of group undertakings	**1.9**	–	–	**126**	–	–
Profit on sale of MCI shares	**–**	17.6	–	**–**	1,133	–
Provision against another fixed asset investment	**–**	(0.4)	–	**–**	(26)	–
Costs relating to the disengagement from MCI	**(1.0)**	(1.1)	–	**(64)**	(69)	–
MCI merger break up fee received less expenses	**–**	–	3.7	**–**	–	238
Goodwill amortisation	**(2.6)**	(0.3)	–	**(173)**	(17)	–
Total credit (charge) before tax	**(2.4)**	15.8	3.7	**(158)**	1,021	238
Tax charge attributable	**(0.1)**	(4.5)	(0.8)	**(5)**	(291)	(50)
Windfall tax charge	**–**	–	(8.0)	**–**	–	(510)
Net credit (charge)	**(2.5)**	11.3	(5.1)	**(163)**	730	(322)
Basic earnings per share/profit for the financial year after goodwill amortisation and exceptional items	**31.7**	46.3	26.6	**2,055**	2,983	1,702
Goodwill amortisation and exceptional charge (credit)	**2.5**	(11.3)	5.1	**163**	(730)	322
Basic earnings per share/profit for the financial year before goodwill amortisation and exceptional items	**34.2**	35.0	31.7	**2,218**	2,253	2,024

Earnings per share before goodwill amortisation and exceptional items are provided to help readers evaluate the performance of the group.

13. Reconciliation of operating profit to operating cash flows

	2000 £m	1999 £m	1998 £m
Group operating profit	**3,598**	3,816	3,657
Depreciation	**2,752**	2,581	2,395
Goodwill amortisation	**89**	–	–
Decrease (increase) in stocks	**(48)**	(8)	36
Increase in debtors	**(1,175)**	(410)	(29)
Increase in creditors	**982**	388	44
Decrease in provisions	**(295)**	(259)	(47)
Other	**(54)**	(73)	15
Net cash inflow from operating activities	**5,849**	6,035	6,071

14. Management of liquid resources

	2000 £m	1999 £m	1998 £m
Purchase of short-term investments and payments into short-term deposits over 3 months	**(3,178)**	(2,973)	(1,103)
Sale of short-term investments and withdrawals from short-term deposits over 3 months	**3,850**	1,735	1,334
Net movement of short-term investments and short-term deposits under 3 months not repayable on demand	**564**	(1,209)	2,016
Net cash inflow (outflow) from management of liquid resources	**1,236**	(2,447)	2,247

Movements in all short-term investments and deposits not repayable on demand are reported under the heading of management of liquid resources.

15. Net debt

	At 1 April 1999 £m	Cash flow £m	Acquisition or disposal of subsidiary undertakings £m	Other non-cash changes £m	Currency movement £m	**At 31 March 2000 £m**
Analysis of net debt						
Cash in hand and at bank	102	151	–	–	–	**253**
Overnight deposits	26	15	–	–	–	**41**
Bank overdrafts	(26)	(112)	–	–	–	**(138)**
	102	54	–	–	–	**156**
Other current assets investments	3,252	(1,236)	–	(5)	(1)	**2,010**
Short-term investments and cash, less bank overdrafts	3,354	(1,182)	–	(5)	(1)	**2,166**
Debt due within one year, excluding bank overdrafts	(921)	(3,968)	(348)	(199)	(76)	**(5,512)**
Debt due after one year	(3,386)	(1,432)	(623)	134	(47)	**(5,354)**
Total debt, excluding bank overdrafts	(4,307)	(5,400)	(971)	(65)	(123)	**(10,866)**
Net debt	(953)	(6,582)	(971)	(70)	(124)	**(8,700)**

	2000 £m	1999 £m	1998 £m
Reconciliation of net cash flow to movement in net debt			
Increase (decrease) in cash in the year	**54**	67	(11)
Cash (inflow) outflow from (increase) decrease in debt	**(5,400)**	632	(1,602)
Cash (inflow) outflow from (decrease) increase in liquid resources	**(1,236)**	2,447	(2,247)
Decrease (increase) in net debt resulting from cash flows	**(6,582)**	3,146	(3,860)
Currency and translation movements	**(124)**	(2)	79
Debt assumed on acquisitions	**(971)**	(94)	–
Other non-cash movements	**(70)**	(26)	(20)
Decrease (increase) in net debt in the year	**(7,747)**	3,024	(3,801)
Net debt at 1 April	**(953)**	(3,977)	(176)
Net debt at 31 March	**(8,700)**	(953)	(3,977)

16. Intangible assets

	Gross book value £m	Amortisation £m	Net book value £m
Goodwill			
At 1 April 1999	742	–	742
Additions	5,699	–	5,699
Disposals and transfers	(571)	–	(571)
Currency movements	(6)	–	(6)
Charge for the year	–	(89)	(89)
At 31 March 2000	**5,864**	**(89)**	**5,775**
Other intangibles – acquisitions of subsidiary undertakings	3	(1)	2
Total	**5,867**	**(90)**	**5,777**

16. Intangible assets (continued)

During the year ended 31 March 2000, the acquisition of the interests in subsidiary companies and the consideration given comprised:

	Cellnet Group*(a)* £m	Esat*(b)* £m	Yellow Book USA*(c)* £m	Syntegra (USA)*(d)* £m	Other £m	**Total £m**
Minority interest	176	(2)	–	1	40	**215**
Fixed assets		428	6	12	157	**603**
Current assets		137	49	48	68	**302**
Current liabilities		(137)	(21)	(88)	(108)	**(354)**
Long-term liabilities		(487)	–	–	(62)	**(549)**
Provisions for liabilities and charges		–	–	–	(2)	**(2)**
Group share of original book value of net assets (liabilities)	176	(61)	34	(27)	93	**215**
Fair value adjustment to achieve consistency of accounting policies	–	(115)	–	–	–	**(115)**
Other fair value adjustments	–	(69)	–	–	–	**(69)**
Fair value to the group	176	(245)	34	(27)	93	**31**
Goodwill	2,997	1,765	381	240	316	**5,699**
Total cost	3,173	1,520	415	213	409	**5,730**
Consideration:						
Cash	3,014	179	401	213	327	**4,134**
Deferred	–	1,167	–	–	45	**1,212**
Loan notes 2000/2009	159	–	–	–	–	**159**
Other loan notes	–	174	14	–	14	**202**
Carrying value of associate wholly acquired	–	–	–	–	23	**23**
Total	3,173	1,520	415	213	409	**5,730**

(a) On 10 November 1999, BT acquired the 40% interest in Cellnet Group Limited, its mobile cellular phone operator, that it did not already own for £3,150 million, excluding £23 million expenses.

The consolidated results of Cellnet Group Limited for the years ended 31 March 1999 and 2000 are summarised as follows:

	2000 £m	1999 £m
Group turnover	**2,435**	1,410
Total operating profit	**97**	165
Exceptional items included in total operating profit:		
Impairment of analogue equipment and network closure costs (note 4)	**(47)**	–
Profit before taxation	**49**	117
Taxation	**(23)**	(39)
Minority interests	**(2)**	–
Profit for the financial year	**24**	78

(b) At the end of March 2000, BT acquired control of Esat Telecom Group plc (Esat), a leading telecommunications operator in Ireland. An interest comprising 70% of the company was acquired under a public offer, the consideration for which passed in April 2000. In January 2000, BT acquired 13% of the company from its then chairman and chief executive for US$287 million (£174 million) and a further 12% interest from a major shareholder for US$271 million (£179 million). Of the total consideration, £179 million was settled in cash in January 2000, £1,029 million in cash in April 2000 and £187 million was satisfied by loan notes repayable at the option of the holder not later than 30 April 2005. The balance of the consideration covers the remaining interest being compulsorily acquired and compensation to employee share option holders.

16. Intangible assets (continued)

Esat holds a 49.5% interest in Esat Digifone. In January 2000, BT acquired a further 1% interest in this company for £15 million. At 31 March 2000, Telenor owned the remaining 49.5% interest. In the table above, the assets acquired and the liabilities assumed comprise those of both Esat and Esat Digifone. Since BT acquired control just before the financial year end, only a preliminary assessment of the fair values of Esat's assets and liabilities, which are based on 31 December 1999 balance sheets, has been undertaken. The fair value adjustment relates to an uplift of £69 million to the carrying value of Esat's debt to its market value on 30 March 2000.

Under an agreement with Telenor, Telenor has the right to exchange its 49.5% interest in Esat Digifone for a 33% interest in Esat and a right to purchase from BT such additional shares as would result in Telenor having an almost 50% interest in Esat at a total price of US$624 million plus interest. If Telenor does not exercise this right, Telenor has agreed to sell its interest in Esat Digifone to the group for US$1,238 million.

Esat incurred a loss after tax of IR£120 million (£95 million) for the year ended 31 December 1999.

(c) On 31 August 1999, BT acquired Yellow Book USA, an independent classified directory publisher in the USA, for £415 million. Yellow Book's loss after tax for the year ended 31 October 1998 was £5 million.

(d) On 31 August 1999, BT acquired Control Data Systems (renamed Syntegra (USA)), an international systems integration company based in the USA, for £213 million. Control Data Systems' loss after tax for the year ended 31 December 1998 was £37 million.

(e) During the year ended 31 March 1999, the acquisition of the interests in Concert Communications on 15 September 1998, Martin Dawes Telecommunications (MDT) on 8 March 1999 and other subsidiary companies and the consideration given comprised:

	Concert £m	MDT £m	Other £m	**Total £m**
Minority interest	39	–	14	**53**
Fixed assets		34	1	**35**
Current assets		101	1	**102**
Current liabilities		(152)	(3)	**(155)**
Long-term liabilities		(3)	–	**(3)**
Group share of original book value of net assets (liabilities)	39	(20)	13	**32**
Fair value adjustment to achieve consistency of accounting policies	–	(9)	–	**(9)**
Fair value to the group	39	(29)	13	**23**
Goodwill	568	160	14	**742**
Total cost	**607**	**131**	**27**	**765**
Consideration:				
Cash	607	41	19	**667**
Deferred	–	–	8	**8**
Loan notes 1999/2006	–	90	–	**90**
Total	**607**	**131**	**27**	**765**

MDT's profit after tax for the year to 31 December 1998 was £2 million.

In September 1998, the group acquired MCI's 24.9% interest in Concert Communications Company (Concert Communications) for £607 million. Goodwill of £568 million arose on this transaction (note 18(c)). This goodwill was transferred into the Concert global venture with AT&T Corp on 5 January 2000.

17. Tangible fixed assets

	Land and buildings*(a)* £m	Plant and equipment £m	Assets in course of construction £m	Total £m
Group				
Cost				
Balances at 1 April 1999	2,999	29,973	1,121	34,093
Acquisitions of subsidiary undertakings	29	480	26	535
Additions	37	786	2,844	3,667
Transfers	190	2,306	(2,496)	–
Disposal of subsidiary undertakings and transfers to joint ventures	(19)	(1,295)	(125)	(1,439)
Other disposals and adjustments	(101)	(955)	(137)	(1,193)
Total cost at 31 March 2000	**3,135**	**31,295**	**1,233**	**35,663**
Depreciation				
Balances at 1 April 1999	1,375	14,917	–	16,292
Acquisitions of subsidiary undertakings	2	100	–	102
Charge for the year *(i)*	115	2,637	–	2,752
Disposal of subsidiary undertakings and transfers to joint ventures	–	(570)	–	(570)
Other disposals and adjustments	(68)	(942)	–	(1,010)
Total depreciation at 31 March 2000	**1,424**	**16,142**	**–**	**17,566**
Net book value at 31 March 2000	**1,711**	**15,153**	**1,233**	**18,097**
Engineering stores	**–**	**–**	**66**	**66**
Total tangible fixed assets at 31 March 2000	**1,711**	**15,153**	**1,299**	**18,163**
Net book value at 31 March 1999	1,624	15,056	1,121	17,801
Engineering stores	–	–	53	53
Total tangible fixed assets at 31 March 1999	1,624	15,056	1,174	17,854

(i) Includes impairment charge of £37 million (note 4).

17. Tangible fixed assets (continued)

	Land and buildings*(a)* £m	Plant and equipment £m	Assets in course of construction £m	Total £m
Company				
Cost				
Balances at 1 April 1999	971	27,090	974	29,035
Additions	8	421	2,388	2,817
Transfers	110	1,923	(2,033)	–
Transfers to subsidiary companies and joint ventures	(3)	(744)	(125)	(872)
Disposals and adjustments	7	(791)	(177)	(961)
Total cost at 31 March 2000	**1,093**	**27,899**	**1,027**	**30,019**
Depreciation				
Balances at 1 April 1999	402	13,663	–	14,065
Charge for the year	39	2,241	–	2,280
Transfers to subsidiary companies and joint ventures	–	(452)	–	(452)
Disposals and adjustments	10	(794)	–	(784)
Total depreciation at 31 March 2000	**451**	**14,658**	**–**	**15,109**
Net book value at 31 March 2000	**642**	**13,241**	**1,027**	**14,910**
Engineering stores	–	–	66	66
Total tangible fixed assets at 31 March 2000	**642**	**13,241**	**1,093**	**14,976**
Net book value at 31 March 1999	569	13,427	974	14,970
Engineering stores	–	–	52	52
Total tangible fixed assets at 31 March 1999	569	13,427	1,026	15,022

	Group		Company	
	2000 £m	1999 £m	**2000 £m**	1999 £m
(a) The net book value of land and buildings comprised:				
Freehold	**1,327**	1,317	**365**	331
Long leases (over 50 years unexpired)	**182**	126	**120**	106
Short leases	**202**	181	**157**	132
Total net book value of land and buildings	**1,711**	1,624	**642**	569

	Group	
	2000 £m	1999 £m
(b) Expenditure on tangible fixed assets comprised:		
Plant and equipment		
Transmission equipment	**1,563**	1,416
Exchange equipment	**413**	411
Other network equipment	**703**	558
Computers and office equipment	**502**	464
Motor vehicles and other	**257**	230
Land and buildings	**229**	205
Increase (decrease) in engineering stores	**13**	(15)
Total expenditure on tangible fixed assets	**3,680**	3,269

18. Fixed asset investments

	Interests in associates and joint ventures					
	Shares £m	Loans £m	Share of post acquisition profits (losses) £m	Other participating interests £m	Other investments £m	Total £m
Group						
Cost						
Balances at 1 April 1999	2,938	247	(662)	163	215	2,901
Additions	3,331	866	–	53	361	4,611
Disposals	–	–	–	–	(7)	(7)
Share of losses less retained profits for the year	–	–	(422)	–	–	(422)
Repayments and other transfers	(80)	(12)	15	(94)	57	(114)
Currency movements	58	(28)	20	–	(7)	43
Balances at 31 March 2000	**6,247**	**1,073**	**(1,049)**	**122**	**619**	**7,012**
Provisions and amounts written off						
Balances at 1 April 1999	(1,023)	–	–	–	(46)	(1,069)
Goodwill amortisation for the year	(84)	–	–	–	–	(84)
Disposals	–	–	–	–	2	2
Transfers	61	–	–	–	–	61
Increase in the year	–	–	–	–	(44)	(44)
Balances at 31 March 2000	**(1,046)**	**–**	**–**	**–**	**(88)**	**(1,134)**
Net book value at 31 March 2000	**5,201**	**1,073**	**(1,049)**	**122**	**531**	**5,878**
Net book value at 31 March 1999	1,915	247	(662)	163	169	1,832

	Subsidiary undertakings		Associates and joint ventures	Other participating interests	Other investments	Total
	Shares £m	Loans £m	£m	£m	£m	£m
Company						
Cost						
Balances at 1 April 1999	12,386	10	58	163	211	12,828
Additions	10,459	–	688	53	131	11,331
Disposals	(2,548)	–	–	–	(2)	(2,550)
Repayments and other transfers	(1,039)	–	–	(94)	57	(1,076)
Currency movements	–	(1)	(5)	–	–	(6)
Balances at 31 March 2000	**19,258**	**9**	**741**	**122**	**397**	**20,527**
Provisions and amounts written off						
Balances at 1 April 1999	(263)	–	(15)	–	(179)	(457)
Increase in the year	(1)	–	–	–	(42)	(43)
Disposals and transfers	11	–	–	–	–	11
Balances at 31 March 2000	**(253)**	**–**	**(15)**	**–**	**(221)**	**(489)**
Net book value at 31 March 2000	**19,005**	**9**	**726**	**122**	**176**	**20,038**
Net book value at 31 March 1999	12,123	10	43	163	32	12,371

18. Fixed asset investments (continued)

(a) Subsidiary undertakings, associates and joint ventures

Details of the principal operating subsidiary undertakings, joint ventures and associates are set out on pages 109 and 110.

(b) Associates and joint ventures

	2000 £m	1999 £m
Associates:		
Goodwill	**1,578**	227
Share of other net assets	**1,061**	191
Total – associates	**2,639**	418
Joint ventures:		
Goodwill	**728**	409
Loans	**1,073**	247
Share of other net assets	**785**	426
Total – joint ventures	**2,586**	1,082
Net book value at 31 March	**5,225**	1,500

The group's proportionate share of its associates and joint ventures' assets and liabilities, in aggregate, at 31 March were as follows:

	2000 £m	1999 £m
Fixed assets	**4,446**	1,723
Current assets	**1,833**	806
Current liabilities	**(1,656)**	(1,100)
Net current assets (liabilities)	**177**	(294)
Non-current liabilities	**(1,161)**	(478)
Minority interests	**(45)**	(37)
Share of net assets	**3,417**	914

The group's proportionate share of its associates and joint ventures' losses less profits before taxation totalled £476 million (1999 – £367 million, 1998 – £252 million) and its share of their losses less profits attributable to shareholders totalled £521 million for the year ended 31 March 2000 (1999 – £379 million, 1998 – £249 million).

(c) Concert

On 5 January 2000, the company and AT&T formed their global venture named Concert for the two companies' trans-border communications activities. The venture is jointly owned and controlled. The group contributed the majority of its cross-border international networks, its international traffic, its business with selected multinational customers and its international products for business customers, as well as Concert Communications. AT&T contributed a similar set of assets and businesses.

18. Fixed asset investments (continued)

The book value of the assets contributed by the group to the joint venture comprised:

	£m
Intangible assets	568
Tangible fixed assets	870
Total fixed assets	1,438
Current assets	123
Current liabilities	(183)
Net current assets (liabilities)	(60)
Provisions for liabilities and charges	(13)
Long-term debt owed to the BT group	(1,169)
Net assets contributed	196

The acquisition of the group's 50% interest in Concert comprised:

	£m
Group's share of Concert's opening net assets (US GAAP)	631
Group's share of US to UK GAAP adjustments	(180)
Group's share of Concert's opening net assets (UK GAAP)	451
Net assets contributed by the group to the joint venture	(196)
Transition costs	(96)
Unrealised gain on the contribution	159

The gain on the transfer of the assets is unrealised since the group continues to maintain a 50% interest in the assets contributed. This gain has been taken to a non-distributable reserve and is shown in the statement of total recognised gains and losses. There is no tax charge on the gain.

In the period 5 January to 31 March 2000, the group's turnover with Concert amounted to £181 million and in the same period it purchased £170 million in services and products from Concert. In addition, the group provided certain support services to Concert, including the secondment of staff, which totalled £79 million and is shown as other operating income. Interest for the period of £12 million was receivable on long-term debt due from Concert. The amount of debt outstanding at 31 March 2000 was £665 million. During the period from 1 April 1999 to 5 January 2000, Concert Communications' net outflow from operations was £18 million and its purchase of tangible fixed assets was £106 million.

(d) Japan Telecom

On 31 August 1999, the group completed its acquisition of a 30% interest, jointly with AT&T Corp, in Japan Telecom, a leading Japanese telecommunications company. Japan Telecom is held through a BT subsidiary company, 66.7% BT owned and 33.3% AT&T owned. The group has a 20% economic interest. AT&T's economic interest is shown within the group's minority interests.

The acquisition of the 30% interest in Japan Telecom comprised:

	£m
Group share of original book value of net assets	871
Fair value adjustment to achieve consistency of accounting policies	(49)
Fair value to the group	822
Goodwill	432
Total cost	**1,254**

On 31 March 2000, the 30% interest in Japan Telecom had a market value equivalent to £3,398 million, compared with a carrying value of £1,345 million.

18. Fixed asset investments (continued)

(e) AT&T Canada, Rogers Cantel Mobile Communications, SmarTone Mobile Communications and other investments

On 16 August 1999, the group acquired a 30% interest in an AT&T subsidiary undertaking which holds a 31% interest in AT&T Canada Corporation, a fixed network telecommunications company operating in Canada. The resulting economic interest of 9.3% cost £360 million. The market value of this interest at 31 March 2000 was £477 million.

On 16 August 1999, the group acquired jointly with AT&T an approximate 33% interest in Rogers Cantel Mobile Communications Inc, a cellular mobile phone company operating in Canada. The resulting economic interest of approximately 17% cost £299 million. The market value of this interest at 31 March 2000 was £520 million.

On 10 May 1999, the group acquired a 20% interest in SmarTone Mobile Communications Limited, a cellular mobile phone company operating in Hong Kong. The market value of this interest at 31 March 2000 was £277 million.

The acquisition of the interest in AT&T Canada, Rogers Cantel Mobile Communications, SmarTone Mobile Communications and other investments comprised:

	AT&T Canada £m	Rogers Cantel Mobile Communi-cations £m	Smartone Mobile Communi-cations £m	Other £m
Group share of original book value of net assets	101	11	96	34
Fair value adjustment to achieve consistency in accounting policies	–	–	–	–
Fair value to the group	101	11	96	34
Goodwill	259	288	145	51
Total cost	**360**	**299**	**241**	**85**

(f) Maxis Communications and LG Telecom

On 9 October 1998, the group completed its acquisition of a 33.3% interest in Maxis Communications, a leading Malaysian telecommunications company. On 14 October 1998, the group completed its acquisition of a 23.5% interest in LG Telecom, a major Korean mobile telecommunications company.

The acquisition of the interests in Maxis Communications and LG Telecom comprised:

	Maxis Communications £m	LG Telecom £m
Group shares of original book value of net assets	60	98
Fair value adjustment to achieve consistency of accounting policies	(9)	(58)
Fair value to the group	51	40
Goodwill	228	194
Total cost	**279**	**234**

(g) Airtel Movil

Following the clearance in 1998 by the European Commission of the alliance between the company, AirTouch and other investors in Airtel Movil SA, a leading Spanish mobile telecommunications company, the group's 15.8% investment in Airtel was reclassified as a joint venture on 1 April 1998. Airtel is jointly controlled by the company as a consequence of the alliance agreement. During the year ended 31 March 1999, the group acquired an additional 2% interest in Airtel for £55 million.

In summary, the acquisition of the cumulative 17.8% interest in Airtel comprised:

	£m
Group share of original book value of net assets	62
Fair value adjustment to achieve consistency of accounting policies	(19)
Fair value to the group	43
Goodwill	158
Total cost	**201**

(h) Cegetel

On 24 September 1997, the group completed its acquisition of a 26% interest in Cegetel, a leading French telecommunications company. Of the cost of the investment in the associated undertaking of £1,029 million, goodwill arising of £862 million was written off against reserves.

The acquisition of the interest in Cegetel comprised:

	£m
Group share of original book value of net assets	483
Fair value adjustment to achieve consistency of accounting policies	(316)
Fair value to the group	167
Goodwill	862
Total cost	**1,029**

(i) MCI Communications Corporation

In September 1994, the company completed the acquisition of a 20% equity interest in MCI (a major carrier of long-distance telecommunications services in the United States) represented by a holding of 136 million unlisted Class A common shares, whereupon MCI became the group's most significant associate. On 3 November 1996, the company entered into a merger agreement with MCI whereby the group would acquire the entire share capital of MCI, not already owned. On 21 August 1997, the terms of the merger agreement were modified. On 1 October 1997, WorldCom announced its intention to offer shares in its company to MCI shareholders as an alternative to the proposed merger and, following an improved offer from WorldCom on 9 November 1997, the company agreed with WorldCom and MCI that it would support the proposed merger of MCI with WorldCom. On 15 September 1998, MCI and WorldCom merged to form MCI WorldCom.

On completion of the merger, the company sold the group's holding of 136 million unlisted Class A common shares in MCI to WorldCom for US$51 per share in cash. The consideration of US$6,936 million was equivalent to £4,133 million at the exchange rate ruling on 15 September 1998. The group also held 0.7 million listed common shares in MCI, most of which were purchased in November 1995. These shares were exchanged for MCI WorldCom common shares on completion of the merger and subsequently sold in the market for £26 million.

As a consequence of the termination of the company's merger agreement with MCI and the company's agreement with WorldCom and MCI, the group ceased treating MCI as an associate on 31 October 1997. The group's share of its associates' results for the year ended 31 March 1998 included a loss before tax of £27 million for its share of MCI's results up to that date.

18. Fixed asset investments (continued)

At 31 March 1998, the group's investment in MCI was stated at £813 million. Goodwill, amounting to £2,214 million written off to group reserves in prior years in respect of this investment, was accounted for at the completion of the MCI/WorldCom merger in determining the profit on the sale of the shares which the group recognised (note 6).

In the period 1 April 1997 to 31 October 1997, the group's turnover with MCI amounted to £108 million and in the same period the group purchased £56 million in services and products from MCI.

(j) Other investments

Other investments include ordinary shares of the company, with a net book value of £117 million (1999 – £18 million) and a market value of £227 million (1999 – £70 million), held in trust for the BT Executive Share Plan, the BT Performance Share Plan and the BT Deferred Bonus Plan (note 30). Also, in the group balance sheet at 31 March 2000, listed investments were held with a book value of £297 million (1999 – £132 million) and a market value of £775 million (1999 – £206 million).

(k) BT Telecomunicaciones

In February 1997, the group entered into an agreement to purchase from Banco Santander SA its 50% holding in the share capital of BT Telecomunicaciones SA, a joint venture between a wholly-owned subsidiary of the company and Banco Santander SA, for the equivalent of £76 million. The transaction was completed in July 1997.

(l) Other related party transactions with associates and joint ventures

In the year ended 31 March 2000, the group's turnover with its other associates and joint ventures amounted to £64 million (1999 – £129 million, 1998 – £74 million) and the group purchased £nil million (1999 – £1 million, 1998 – £9 million) in services and products from these undertakings. The amount of debt outstanding with these joint ventures, at 31 March 2000, was £408 million (1999 – £247 million).

19. Debtors

	Group		Company	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Trade debtors *(a)*	**2,487**	2,190	**2,056**	1,959
Amounts owed by subsidiary undertakings	**–**	–	**368**	2,294
Amounts owed by joint ventures (trading)	**602**	114	**322**	114
Amounts owed by associates (trading)	**6**	16	**–**	8
Other debtors	**596**	282	**589**	278
Accrued income	**1,298**	1,209	**1,208**	1,171
Prepayments	**252**	184	**135**	152
Total debtors	**5,241**	3,995	**4,678**	5,976

(a) The group's trade debtors are stated after deducting £421 million (1999 – £262 million) for doubtful debts. The amount charged to the group profit and loss account for doubtful debts for the year ended 31 March 2000 was £264 million (1999 – £231 million, 1998 – £218 million).

20. Current asset investments

	Group		Company	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Listed investments	**419**	359	**5**	5
Other short-term deposits and investments	**1,632**	2,919	**1,743**	1,892
Total current asset investments	**2,051**	3,278	**1,748**	1,897
Market value of listed investments	**420**	361	**5**	5

21. Loans and other borrowings

	Average effective interest rates(a) %	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
US dollar 8.75% guaranteed bonds 1999	8.8	**–**	124	**–**	–
Zero coupon bonds 2000 (less unamortised discount (1999 – £19 million))	5.0	**–**	181	**–**	181
US dollar 6.75% notes 2002 (less unamortised discount £5 million (1999 – £7 million))	6.9	**936**	922	**936**	922
12.25% bonds 2003	12.3	**180**	180	**180**	180
7.125% bonds 2003 (less unamortised discount £2 million (1999 – £3 million))	7.3	**498**	497	**498**	497
US dollar 6.75% bonds 2004	6.2	**627**	–	**627**	–
12.25% bonds 2006	12.3	**229**	229	**229**	229
US dollar 7% notes 2007 (less unamortised discount £3 million (1999 – £3 million))	6.9	**624**	617	**624**	617
US dollar 12.5% senior deferred coupon notes 2007 (less unamortised discount £13 million)	*(b)*	**116**	–	**–**	–
US dollar 11.875% senior notes 2008 (including unamortised premium £17 million)	*(b)*	**112**	–	**–**	–
Euro 11.875% senior notes 2009 (including unamortised premium £28 million)	*(b)*	**133**	–	**–**	–
US dollar 8.765% bonds 2009	8.6	**125**	–	**–**	–
8.625% bonds 2020 (less unamortised discount £4 million (1999 – £4 million))	8.8	**296**	296	**296**	296
5.75% bonds 2028 (less unamortised discount £5 million)	5.8	**595**	–	**595**	–
Total listed bonds, debentures and notes		**4,471**	3,046	**3,985**	2,922
Lease finance		**9**	15	**1**	2
Bank loans due 1999-2009	9.2	**827**	789	**–**	–
Euro floating rate note 2000–2005	3.3	**172**	–	**–**	–
Floating rate note 2000-2009	5.3	**159**	–	**159**	–
Other loans	6.4	**245**	111	**112**	1
Bank overdrafts and other short-term borrowings	6.1	**237**	27	**1,078**	794
Commercial paper	5.8	**4,884**	345	**4,884**	345
Loans from subsidiary undertakings		**–**	–	**7,168**	7,475
Total loans and other borrowings		**11,004**	4,333	**17,387**	11,539

Apart from the lease finance all borrowings at 31 March 2000 are unsecured. Lease finance is repayable by instalments.

	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Repayments fall due as follows:				
Within one year, or on demand	**5,650**	947	**12,551**	7,250
Between one and two years	**12**	13	**–**	934
Between two and three years	**1,225**	3	**1,190**	–
Between three and four years	**589**	1,190	**558**	1,177
Between four and five years	**895**	559	**867**	557
After five years	**2,633**	1,621	**2,221**	1,621
Total due for repayment after more than one year	**5,354**	3,386	**4,836**	4,289
Total loans and other borrowings	**11,004**	4,333	**17,387**	11,539

21. Loans and other borrowings (continued)

(a) Average effective interest rates

The average interest rates on page 83 take into account the effect of interest rate swaps. The interest basis of interest rate swap agreements used, the notional amounts, their average maturities and weighted average interest rates are shown below:

	Average maturity	Notional amount £m	Average interest receivable rate £m	Average interest payable rate £m
Pay fixed interest and receive variable interest	Over 5 years	943	5.3	8.2
Pay variable interest and receive fixed interest	Under 5 years	150	9.2	6.0

The rates of the variable rate portion of the swaps are based on quoted rates. In calculating the average variable rates, the latest rates agreed with the counterparty on each swap have been used. Changes in interest rates will affect the variable rate information disclosed above.

(b) Debt assumed on acquiring control of Esat on 30 March 2000. No interest relating to these loans is included in the group's interest payable for the year ended 31 March 2000.

(c) Unused committed lines of credit for short-term financing available at 31 March 2000 totalled approximately £5,800 million (1999 – £150 million), which was in support of a commercial paper programme or other borrowings. These lines of credit are available for up to one year.

22. Other creditors

	Group		Company	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Trade creditors	**2,416**	2,344	**1,801**	1,739
Amounts owed to subsidiary undertakings	**–**	–	**762**	1,261
Amounts owed to joint ventures (trading)	**747**	2	**504**	–
Corporation taxes	**757**	1,230	**499**	867
Other taxation and social security	**377**	314	**349**	323
Other creditors *(a)*	**2,556**	1,133	**823**	926
Accrued expenses	**558**	445	**490**	351
Deferred income	**963**	815	**853**	742
Dividends	**861**	799	**861**	799
Total other creditors	**9,235**	7,082	**6,942**	7,008

(a) Group includes Esat purchase consideration of £1,167 million at 31 March 2000.

23. Provisions for liabilities and charges

	Deferred taxation*(a)* £m	Pension provisions £m	Other provisions*(b)* £m	Total £m
Group				
Balances at 1 April 1999	350	953	88	1,391
Charged (credited) against profit for the year	13	167	(11)	169
Acquisitions and disposals	(9)	–	–	(9)
Utilised in the year	–	(491)	(4)	(495)
Total provisions at 31 March 2000	**354**	**629**	**73**	**1,056**
Company				
Balances at 1 April 1999	134	953	29	1,116
Charged (credited) against profit for the year	18	152	(1)	169
Utilised in the year	–	(476)	(7)	(483)
Total provisions at 31 March 2000	**152**	**629**	**21**	**802**

23. Provisions for liabilities and charges (continued)

(a) Deferred taxation

The elements of deferred taxation provided in the accounts at 31 March were as follows:

	Group		Company	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Tax effect of timing differences due to:				
Excess capital allowances	**613**	696	**434**	538
Pension provisions	**(189)**	(287)	**(189)**	(287)
Other	**(70)**	(59)	**(93)**	(117)
Total provision for deferred taxation	**354**	350	**152**	134

The total potential liability to deferred taxation at 31 March was as follows:

	Group		Company	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Tax effect of timing differences due to:				
Excess capital allowances	**2,568**	2,591	**2,389**	2,433
Pension provisions	**(189)**	(287)	**(189)**	(287)
Other	**(70)**	(59)	**(93)**	(117)
Total potential liability for deferred taxation	**2,309**	2,245	**2,107**	2,029

(b) Other provisions comprise amounts provided for legal or constructive obligations arising from insurance claims and litigation.

24. Called up share capital

The authorised share capital of the company throughout the year ended 31 March 2000 was £2,625,000,001 divided into 10,500,000,004 ordinary shares of 25p each.

The allotted, called up and fully paid share capital of the company was £1,627 million at 31 March 2000 (1999 – £1,617 million), representing 6,507,104,882 ordinary shares (1999 – 6,469,435,043 ordinary shares).

Of the authorised but unissued share capital at 31 March 2000, 232 million ordinary shares were reserved to meet options granted under the employee share option schemes described in note 30.

Ordinary shares allotted during the year were as follows:

	Number	Nominal value £	Consideration*(a)* £
Savings related schemes	35,762,240	8,940,560	118,460,889
Other share option schemes	1,138,560	284,640	4,315,608
Stock purchase plan	769,039	192,260	4,469,197
Totals for the year ended 31 March 2000	**37,669,839**	**9,417,460**	**127,245,694**

(a) Consideration excludes contributions from group undertakings as described in *note 25(d)*

25. Reconciliation of movement in shareholders' funds

	Share capital £m	Share premium account*(a)* £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m	Total £m
Group						
Balances at 31 March 1997	1,589	675	750	27	8,075	11,116
Goodwill, arising on acquisition of subsidiaries, associates and joint ventures *(b)*	–	–	–	–	(937)	(937)
Goodwill, previously written off to reserves, taken back to the profit and loss account	–	–	–	–	5	5
Employee share option schemes – 52 million shares issued *(note 30)*	13	217	–	–	–	230
Movement relating to BT's employee share ownership trust *(d)*	–	–	–	–	(85)	(85)
Currency movements (including £31 million net gains in respect of foreign currency borrowings) *(c)*	–	–	–	–	(74)	(74)
Profit for the financial year	–	–	–	–	1,702	1,702
Dividends (19.0p net per ordinary share)	–	–	–	–	(1,216)	(1,216)
Scrip dividend – 4 million shares issued	1	–	(1)	–	18	18
Other movements	–	–	–	–	26	26
Balances at 31 March 1998	1,603	892	749	27	7,514	10,785
Goodwill, previously written off to reserves, taken back to the profit and loss account *(note 6)*	–	–	–	–	2,214	2,214
Employee share option schemes – 50 million shares issued *(d)* *(note 30)*	12	314	–	–	–	326
Movement relating to BT's employee share ownership trust *(d)*	–	–	–	–	(165)	(165)
Currency movements (including £22 million net losses in respect of foreign currency borrowings) *(c)*	–	–	–	–	45	45
Profit for the financial year	–	–	–	–	2,983	2,983
Dividends (20.4p net per ordinary share)	–	–	–	–	(1,322)	(1,322)
Scrip dividend – 8 million shares issued	2	–	(2)	–	74	74
Balances at 31 March 1999	1,617	1,206	747	27	11,343	14,940
Goodwill, previously written off to reserves, taken back to the profit and loss account	–	–	–	–	6	6
Employee share option schemes – 38 million shares issued *(d)* *(note 30)*	10	374	–	–	–	384
Movement relating to BT's employee share ownership trust *(d)*	–	–	–	–	(257)	(257)
Currency movements (including £10 million net losses in respect of foreign currency borrowings) *(c)*	–	–	–	–	(66)	(66)
Profit for the financial year	–	–	–	–	2,055	2,055
Dividends (21.9p per ordinary share)	–	–	–	–	(1,426)	(1,426)
Unrealised gain on transfer of assets and group undertakings to a joint venture	–	–	–	159	–	159
Balances at 31 March 2000	**1,627**	**1,580**	**747**	**186**	**11,655**	**15,795**

25. Reconciliation of movement in shareholders' funds (continued)

	Share capital £m	Share premium account*(a)* £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
Company					
Balances at 31 March 1997	1,589	675	750	9,004	12,018
Employee share option schemes – 52 million shares issued *(note 30)*	13	217	–	–	230
Movement relating to BT's employee share ownership trust *(d)*	–	–	–	(85)	(85)
Profit for the financial year *(e)*	–	–	–	2,146	2,146
Dividends (19.0p net per ordinary share)	–	–	–	(1,216)	(1,216)
Scrip dividend – 4 million shares issued	1	–	(1)	18	18
Currency movements (including £31 million net gain in respect of foreign currency borrowings)	–	–	–	(66)	(66)
Balances at 31 March 1998	1,603	892	749	9,801	13,045
Employee share option schemes – 50 million shares issued *(note 30)*	12	314	–	–	326
Movement relating to BT's employee share ownership trust *(d)*	–	–	–	(165)	(165)
Profit for the financial year *(e)*	–	–	–	3,785	3,785
Dividends (20.4p net per ordinary share)	–	–	–	(1,322)	(1,322)
Scrip dividend – 8 million shares issued	2	–	(2)	74	74
Currency movements	–	–	–	1	1
Balances at 31 March 1999	1,617	1,206	747	12,174	15,744
Employee share option schemes – 38 million shares issued (note 30)	10	374	–	–	384
Movement relating to BT's employee share ownership trust	–	–	–	(252)	(252)
Profit for the financial year *(e)*	–	–	–	2,064	2,064
Dividends (21.9p per ordinary share)	–	–	–	(1,426)	(1,426)
Currency movements	–	–	–	(8)	(8)
Balances at 31 March 2000	**1,627**	**1,580**	**747**	**12,552**	**16,506**

(a) The share premium account, representing the premium on allotment of shares, the capital redemption reserve and £159 million of the other reserves are not available for distribution.

(b) Aggregate goodwill at 31 March 2000 in respect of acquisitions completed prior to 1 April 1998 of £1,383 million (1999 – £1,389 million, 1998 – £3,603 million) has been written off against retained earnings in accordance with the group's accounting policy. The goodwill written off in the year ended 31 March 1998 mainly arose in connection with the acquisition of the interest in Cegetel. The goodwill written off against retained earnings will be charged in the profit and loss account on the subsequent disposal of the business to which it related.

(c) The cumulative foreign currency translation adjustment, which decreased retained earnings at 31 March 2000, was £151 million (1999 – £85 million decrease, 1998 – £130 million decrease).

(d) During the year ended 31 March 2000 the company issued shares at a market value of £375 million (1999 – £311 million) in respect of the exercise of options awarded under its principal savings-relating share option scheme. Employees paid £118 million (1999 – £146 million) to the group for the issue of these shares and the balance of £257 million (1999 – £165 million) comprised contributions to the qualifying employee share ownership trust from group undertakings.

(e) The profit for the financial year, dealt with in the profit and loss account of the company and after taking into account dividends from subsidiary undertakings, was £2,064 million (1999 – £3,785 million, 1998 – £2,146 million). As permitted by Section 230 of the Companies Act 1985, no profit and loss account of the company is presented.

26. Financial commitments, contingent liabilities and subsequent events

	Group		Company	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Contracts placed for capital expenditure not provided in the accounts	**1,000**	1,109	**940**	1,008
Operating lease payments payable within one year of the balance sheet date were in respect of leases expiring:				
Within one year	**9**	3	**1**	1
Between one and five years	**37**	29	**26**	19
After five years	**140**	116	**85**	93
Total payable within one year	**186**	148	**112**	113

Future minimum operating lease payments for the group at 31 March 2000 were as follows:

	2000 £m
Payable in the year ending 31 March:	
2001	**186**
2002	**173**
2003	**166**
2004	**160**
2005	**152**
Thereafter	**997**
Total future minimum operating lease payments	**1,834**

Operating lease commitments were mainly in respect of leases of land and buildings.

At 31 March 2000, there were no contingent liabilities or guarantees other than those arising in the ordinary course of the group's business and on these no material losses are anticipated. The group has insurance cover to certain limits for major risks on property and major claims in connection with legal liabilities arising in the course of its operations. Otherwise, the group generally carries its own risks.

The company has guaranteed certain borrowings of subsidiary undertakings amounting to £926 million (1999 – £979 million).

Satellite consortia, in which the company has participating interests, are organisations without limited liability. At 31 March 2000, the company's share of the aggregate borrowings of these consortia amounted to £130 million (1999 – £144 million).

The company does not believe there are any pending legal proceedings which would have a material adverse effect on the financial position or results of operations of the group.

On 27 April 2000, BT acquired a third generation mobile licence for the UK in HM Government's auction, for £4.03 billion. BT paid the fee in full on 16 May 2000 by drawing on its commercial paper programmes.

27. Pension costs

The total pension cost of the group expensed within staff costs was £167 million (1999 – £176 million, 1998 – £177 million), of which £159 million (1999 – £167 million, 1998 – £169 million) related to the group's main pension scheme, the BT Pension Scheme (BTPS).

The pension costs for the years ended 31 March 2000, 1999 and 1998 were based on the valuation of the BTPS at 31 December 1996. The valuation, carried out by professionally qualified independent actuaries, used the projected unit method. The valuation was determined using the following long-term assumptions:

	Rates (per annum) %
Return on existing assets, relative to market values	**8.0**
Return on future investments	**8.4**
Average increase in retail price index	**4.0**
Average future increases in wages and salaries	**5.8**
Average increase in pensions	**3.75-4.0**

At 31 December 1996, the assets of the BTPS had a market value of £19,879 million and were sufficient to cover 100.3% of the benefits that had accrued to members by that date, after allowing for expected future increases in wages and salaries but not taking into account the costs of providing incremental pension benefits for employees taking early retirement under release schemes since that date. This cost, which amounted to £140 million in the year ended 31 March 2000 (1999 – £279 million, 1998 – £224 million), is being taken into account in the actuarial valuation at 31 December 1999.

In the year ended 31 March 2000, the group made regular contributions of £253 million (1999 – £239 million, 1998 – £238 million) and a special contribution of £230 million (1999 – £200 million).

Certain activities of the BTPS are carried out at the company's pension centre, all costs of which are borne by the company. These costs have not been apportioned for accounting purposes between those attributable to the BTPS and those attributable to the company because functions maintained for both entities cannot be meaningfully divided between them. The company occupies eight properties owned by the scheme on which an annual rental of £3 million is payable.

The BTPS assets are invested in UK and overseas equities, UK and overseas properties, fixed interest and index linked securities, deposits and short-term investments. At 31 March 2000, the UK equities included 51 million (1999 – 46 million) ordinary shares of the company with a market value of £597 million (1999 – £463 million).

Following a High Court judgement made in October 1999, the BTPS is liable to pay additional benefits to certain former employees of the group who left on voluntary redundancy terms. These were former employees, in managerial grades, who had joined the group's business prior to 1 December 1971. The value of the additional benefits at 31 March 2000 is estimated at £300 million.

A further valuation of the BTPS is being carried out at 31 December 1999 for the purpose of determining the group's future pension expenses. For the December 1999 valuation, the major assumptions are that, over the long term, the return on the existing assets of the scheme, relative to market values, would be 5.6% per annum (allowing for real equity dividend growth of 1.25% per annum) and on future investments the return would be 7.1% per annum, the retail price index would increase at an average of 3.0%, and wages and salary rates would increase at an average of 4.8%. The preliminary results of the valuation show that the assets of the scheme, were sufficient to cover 99.3% of the benefits that had accrued to members by that date, including those accruing to members following the High Court judgement noted above.

28. Directors

Directors' emoluments

The emoluments of the directors for the year ended 31 March 2000 and the benefits received under the long-term incentive plans were, in summary, as follows:

	2000 £000	1999 £000	1998 £000
Salaries	**1,878**	1,695	1,578
Performance-related bonus	**1,295**	1,515	882
Deferred bonus in shares	**573**	1,513	222
Other benefits	**148**	123	114
	3,894	4,846	2,796
Payments to non-executive directors *(a)*	**302**	283	259
Total emoluments	**4,196**	5,129	3,055
Gain on the exercise of share options *(b)*	**–**	932	857
Value of shares vested under the Executive Share Plan and the Performance Share Plan *(c)*	**1,845**	–	–

(a) Payments to non-executive directors include fees paid to their principal employer of £nil (1999 – £9,500, 1998 – £38,000).

(b) The amount for the year ended 31 March 1999 included £41,000 attributable to a former director.

(c) The amount for the year ended 31 March 2000 includes £834,000 attributable to a former director.

More detailed information concerning directors' remuneration, shareholdings, pension entitlements, share options and other long-term incentive plans is shown in the report on directors' remuneration on pages 48 to 56.

29. People employed

	2000		1999		1998	
	Year end '000	**Average '000**	Year end '000	Average '000	Year end '000	Average '000
Number of employees in the group:						
UK	**126.0**	**123.8**	118.9	119.8	120.2	124.9
Non-UK	**10.8**	**8.3**	5.8	5.1	4.5	4.3
Total employees	**136.8**	**132.1**	124.7	124.9	124.7	129.2

30. Employee share schemes

The company has a share ownership scheme used for employee share allocations (profit sharing), savings-related share option schemes for its employees and those of participating subsidiaries, further share option schemes for selected group employees and an employee stock purchase plan for employees in the United States. It also has an executive share plan, a performance share plan and deferred bonus plan for executives.

Share option schemes

The major share option scheme, the BT Employee Sharesave Scheme, is savings related and the share options are normally exercisable on completion of a three or five-year Save As You Earn contract. A similar savings related scheme exists for group employees based outside the UK. Under the other share option schemes, share options are normally exercisable between the third and tenth anniversaries of the date of grant. Options outstanding under these share option schemes at 31 March 1999 and 2000, together with their exercise prices and dates, were as follows:

		Number of ordinary shares	
Normal dates of exercise	Option price per share	**2000 millions**	1999 millions
Savings-related schemes:			
1999	341p	**–**	25
1999	300p	**–**	7
2000	404p	**4**	5
2000	306p	**37**	43
2001	267p	**62**	64
2001	583p	**4**	4
2002	359p	**48**	50
2002	949p	**4**	–
2003	518p	**38**	39
2004	844p	**29**	–
Total		**226**	237
Other share option schemes:			
1993-2010	289p to 1206p	**6**	6
Total options outstanding		**232**	243

In the period 1 April 2000 to 24 May 2000, no share options were granted, and options over one million shares were exercised or lapsed.

During the year ended 31 March 2000, BT granted options over 34 million shares (1999 – 46 million, 1998 – 60 million) substantially all under the employee sharesave schemes. The weighted average fair value of share options granted during the year ended 31 March 2000 has been estimated on the date of grant using the Black-Scholes option pricing model. The following weighted average assumptions were used in that model: an expected life extending one month later than the first exercise date; estimated annualised dividend yield of approximately 2% (1999 – 3%, 1998 – 5%); risk free interest rates of 6% (1999 – 7%, 1998 – 7%) on options exercisable three years after the date of grant and 6% (1999 – 7%, 1998 – 8%) on options exercisable five years after the date of grant; and expected volatility of approximately 40% (1999 – 30%, 1998 – 18%).

The weighted average fair value of the share options granted in the year ended 31 March 2000 was 413p (1999 – 313p, 1998 – 80p) for options exercisable three years after the date of grant and 524p (1999 – 309p, 1998 – 120p) for options exercisable five years after the date of grant. The total value of share options granted by BT in the year ended 31 March 2000 was £170 million (1999 – £139 million, 1998 – £70 million). In accordance with UK accounting practices, no compensation expense is recognised for the fair value of options granted. See *United States Generally Accepted Accounting Principles – IV Accounting for share options* for the treatment under US GAAP.

30. Employee share schemes (continued)

Options granted, exercised and lapsed under these share option schemes during the years ended 31 March 1998, 1999 and 2000 and options exercisable at 31 March 1998, 1999 and 2000 were as follows:

	Savings related schemes millions	Other share option schemes millions	Total millions	Exercise price range	Weighted average exercise price
Outstanding, 31 March 1997	249	14	263	243p–460p	297p
Granted	60	–	60	359p–596p	363p
Exercised	(46)	(6)	(52)	243p–430p	275p
Lapsed	(10)	–	(10)	243p–430p	313p
Outstanding, 31 March 1998	253	8	261	262p–596p	316p
Granted	45	1	46	518p–1053p	536p
Exercised	(46)	(3)	(49)	262p–583p	321p
Lapsed	(15)	–	(15)	265p–773p	328p
Outstanding, 31 March 1999	237	6	243	267p–1053p	356p
Granted	33	1	34	844p–1206p	862p
Exercised	(36)	(1)	(37)	267p–949p	333p
Lapsed	(8)	–	(8)	267p–1043p	366p
Outstanding, 31 March 2000	**226**	**6**	**232**	**267p–1206p**	**432p**
Exercisable, 31 March 1998	–	7	7	262p–460p	362p
Exercisable, 31 March 1999	–	4	4	289p–460p	369p
Exercisable, 31 March 2000	–	3	3	289p–460p	368p

BT Executive Share Plan, BT Performance Share Plan and BT Deferred Bonus Plan

The BT Executive Share Plan (ESP) and the BT Performance Share Plan (PSP) were introduced for employees of the group in 1994 and 1995, respectively. Under the plans, company shares are acquired by an employee share ownership trust and are conditionally awarded to participants. Participants are only entitled to these shares in full at the end of a five-year period under the ESP and the end of a three-year period, which may be extended to four or five years, under the PSP if, at the end of the applicable period, the company has met the relevant pre-determined corporate performance measure and, normally, if the participants are still employed by the group. Awards of shares were granted in each of the years from 1994 to 1999 under the ESP and from 1995 to 1997 under the first performance cycle of the PSP. Further awards of shares were granted in 1998 and 1999 under the second three-year performance cycle of the PSP. The corporate performance measure assesses the company's overall performance against those top 100 companies listed on the London Stock Exchange, as rated by the Financial Times (the FT-SE 100 index), at the beginning of the relevant performance period.

The first five-year performance cycle of the ESP ended on 31 July 1999 and on the basis of the corporate measure, the company's Total Shareholder Return target relative to the other companies in the FT-SE 100, 100% of the shares vested on 2 August 1999 in 25 participants and 0.6 million shares were transferred to those participants.

The first three-year performance cycle of the PSP ended on 31 July 1998 and on the basis of the corporate measure, the company's Total Shareholder Return target relative to the other companies in the FT-SE 100, 90% of the shares vested on 19 August 1998 in 745 participants and 5.0 million shares were transferred to those participants.

The BT Deferred Bonus Plan (DBP) was established in 1998 and awards were granted to employees of the group in July 1998 and 1999. Under this plan, shares in the company are acquired by an employee share ownership trust and transferred to participants at the end of three years if he or she has continued to be employed by the group throughout that period.

30. Employee share schemes (continued)

At 31 March 2000, 19.3 million shares in the company were held in trust for employee share schemes, of which 5.9 million shares (1999 – 5.6 million) were held for the ESP, 2.2 million shares (1999 – 0.9 million) were held for the PSP and 0.9 million shares (1999 – 0.4 million) were held for the DBP. Dividends earned on the shares during the conditional periods are reinvested in company shares for the potential benefit of the participants. Additional information relating to the plans is as follows:

	ESP		PSP		DBP		Total	
	2000 £m	1999 £m	**2000 £m**	1999 £m	**2000 £m**	1999 £m	**2000 £m**	1999 £m
Value of range of possible future transfers: nil to	**66.9**	56.1	**25.3**	9.2	**10.4**	3.8	**102.6**	69.1
Provision for the costs of the plans charged to the profit and loss account in year	**6.4**	6.6	**14.4**	16.0	**7.7**	5.4	**28.5**	28.0
Nominal value of shares held in trust	**1.5**	1.4	**0.6**	0.2	**0.2**	0.1	**2.3**	1.7
Market value of shares held in trust	**69.4**	56.9	**25.4**	9.5	**10.4**	3.8	**105.2**	70.2

In addition, 10.3 million shares are held in trust for future awards under employee share schemes. These shares had a nominal value of £2.6 million and a market value of £122 million at 31 March 2000.

The values of possible future transfers of shares under the plans were based on the company's share price at 31 March 2000 of 1,175p (1999 – 1,011p). The provisions for the costs of the ESP and PSP were based on best estimates of the company's performance over the plans' conditional periods, relating to those portions of the plan conditional periods from commencement up to the financial year end.

BT Employee Stock Purchase Plan

An employee stock purchase plan was established in 1998 for employees in the United States. Under this plan, employees may purchase American Depositary Shares (ADSs) on a monthly basis at a price equal to the lower of (i) 85% of the average trading price of the ADSs on the New York Stock Exchange on the date on which the purchase rights are granted and, (ii) 85% of the average trading price of the ADSs on the date of purchase. During the year ended 31 March 2000, the discounted price was between US$92.20 and US$170.21 (1999 – US$92.20) per ADS and 0.8 million shares (1999 – 0.4 million) were issued under this plan.

31. Auditors

The auditors' remuneration for the year ended 31 March 2000 for the group was £2,650,000 (1999 – £2,491,000, 1998 – £2,396,000), including £1,229,000 (1999 – £1,216,000, 1998 – £1,216,000) for the company.

The following fees were paid or are payable to the company's auditors, PricewaterhouseCoopers, in the UK for the years ended 31 March 2000 and 31 March 1999 (1998 – Coopers & Lybrand):

	2000 £000	1999 £000	1998 £000
Audit of the company's statutory accounts	**1,229**	1,216	1,216
Audits of the UK subsidiary undertakings' statutory accounts	**834**	605	510
Other services, including regulatory audits and tax compliance work *(a)*	**12,745**	8,855	4,724
Total	**14,808**	10,676	6,450

(a) Fees for the year ended 31 March 1999 comprise work carried out by Coopers & Lybrand and Price Waterhouse in the three months to 30 June 1998 and work carried out by PricewaterhouseCoopers on or subsequent to 1 July 1998, the date of the firms' merger. Includes fees for regulatory, taxation and global venture-related work of £7,541,000 (1999 – £4,483,000, 1998 – £2,488,000). Fees for other services in the year ended 31 March 1998 comprise fees solely to Coopers & Lybrand.

31. Auditors (continued)

In addition, fees of £6,382,000 were paid or are payable to PricewaterhouseCoopers for the year ended 31 March 2000 in respect of audit and other services to the company's subsidiary undertakings outside the UK and in respect of other services to the group. Fees of £6,418,000 were paid to other international members of Coopers & Lybrand, Price Waterhouse or PricewaterhouseCoopers for the year ended 31 March 1999 in respect of audit and other services to the company's subsidiary undertakings outside the UK and in respect of other services to the group. Fees of £1,283,000 and £865,000 were paid for work carried out by Price Waterhouse inside and outside the UK, respectively, between 1 April and 1 July 1998.

32. Financial instruments and risk management

The group holds or issues financial instruments mainly to finance its operations; for the temporary investment of short-term funds; and to manage the currency and interest rate risks arising from its operations and from its sources of finance. In addition, various financial instruments – for example trade debtors and trade creditors – arise directly from the group's operations.

The group finances its operations primarily by a mixture of issued share capital, retained profits, long-term loans and, increasingly over the year ended 31 March 2000, short-term loans, principally by issuing commercial paper. The group borrows in the major debt long-term markets in major currencies. Typically, but not exclusively, the bond markets provide the most cost-effective means of long-term borrowing. The group uses derivative financial instruments primarily to manage its exposure to market risks from changes in interest and foreign exchange rates. The derivatives used for this purpose are principally interest rate swaps, gilt locks, currency swaps and forward currency contracts.

The types of financial instrument used for investment of short-term funds are prescribed in group treasury policies with limits on the exposure to any one organisation. Short-term investing in financial instruments is undertaken on behalf of the group by external substantial fund managers who are limited to dealing in debt instruments and certain defined derivative instruments and are given strict guidelines on credit, diversification and maturity profiles.

During the year ended 31 March 2000, net debt increased from £953 million to £8,700 million primarily as a result of the group making acquisitions of businesses and interests in joint ventures and associates. This increase in debt has been primarily funded under the group's commercial paper programmes. As a result, BT's borrowing profile has changed during the year from one at fixed rates to one mainly at floating rates. It is BT's intention to re-finance a significant part of its existing commercial paper programme borrowings with medium or longer-term debt when market conditions allow.

The group uses financial instruments to hedge some of its currency exposures arising from its non-UK assets, liabilities and forward purchase commitments. The group also hedges some of its interest liabilities. The financial instruments used comprise borrowings in foreign currencies, forward foreign currency exchange contracts, gilt locks and interest and currency swaps.

There has been a change in the nature of the group's risk profile between 31 March 2000 and the date of these financial statements with a further increase in short-term borrowings. This has been due to the funding of approximately £6 billion, in total, in respect of the UK third generation mobile licence payment on 16 May 2000, the completion of the Esat acquisition in April 2000 and other non-UK investments. This funding has been financed within the group's commercial paper programme.

The notional amounts of derivatives summarised below do not necessarily represent amounts exchanged by the parties and, thus, are not necessarily a measure of the exposure of the group through its use of derivatives. The amounts exchanged are calculated on the notional amounts and other terms of the derivatives which relate to interest and exchange rates.

(a) Interest rate risk management

The group has entered into interest rate swap agreements with commercial banks and other institutions to vary the amounts and periods for which interest rates on borrowings are fixed. By swapping fixed rates on long-term borrowings into floating rates, the group has obtained lower effective floating-rate borrowings than those available if borrowing directly at a floating rate. Under interest rate swaps, the group agrees with other parties to exchange, at specified intervals, the differences between fixed rate and floating rate interest amounts calculated by reference to an agreed notional principal

amount. Under gilt locks, forward sales of UK government long-dated treasury stock are entered into for periods of up to one year. This hedge effectively fixes in the interest on part of the group's future borrowings.

At 31 March 2000, the group had outstanding interest rate swap agreements and gilt locks having a total notional principal amount of £2,073 million (1999 – £1,371 million).

(b) Foreign exchange risk management

Cross currency swaps and forward foreign exchange contracts have been entered into to reduce the foreign currency exposure on the group's operations and the group's net assets. The group also enters into forward foreign exchange contracts to hedge investments, interest expense and purchase and sale commitments denominated in foreign currencies (principally US dollars, the euro and the yen). The remaining terms of the currency swaps are up to 14 years and the terms of currency forward exchange contracts are typically less than one year. The purpose of the group's foreign currency hedging activities is to protect the group from the risk that the eventual net inflows and net outflows will be adversely affected by changes in exchange rates.

At 31 March 2000, the group had outstanding foreign currency swap agreements and forward exchange contracts having a total notional principal amount of £11,948 million (1999 – £5,152 million).

The fair values of forward foreign currency contracts at 31 March 2000 were £7,088 million (1999 – £3,100 million) for purchases of currency and £1,852 million (1999 – £1,626 million) for sales of currency. These fair values have been estimated by calculating their present values using the market discount rates, appropriate to the terms of the contracts, in effect at the balance sheet dates.

At 31 March 2000, the group had deferred unrealised gains of £18 million (1999 – £24 million) and losses of £43 million (1999 – £29 million), based on dealer-quoted prices, from hedging purchase and sale commitments. At 31 March 2000, the group also had deferred realised net gains of £11 million (1999 – £1 million). These are included in the profit and loss account as part of the hedged purchase or sale transaction when it is recognised, or as gains or losses when a hedged transaction is no longer expected to occur.

(c) Concentrations of credit risk and credit exposures of financial instruments

The group considers that it is not exposed to major concentrations of credit risk. The group, however, is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but does not expect any counterparties to fail to meet their obligations. Based on interest and exchange rates in effect at 31 March 2000, the group had a maximum credit exposure of £35 million (1999 – £127 million) to one counterparty under foreign currency and interest rate swap agreements. The group limits the amount of credit exposure to any one counterparty. The group does not normally see the need to seek collateral or other security.

(d) Fair value of financial instruments

The following table shows the carrying amounts and fair values of the group's financial instruments at 31 March 2000 and 1999. The carrying amounts are included in the group balance sheet under the indicated headings, with the exception of derivative amounts related to borrowings, which are included in debtors or other creditors as appropriate. The fair values of the financial instruments are the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in forced or liquidation sale.

32. Financial instruments and risk management (continued)

	Carrying amount		Fair value	
	2000 £m	1999 £m	**2000 £m**	1999 £m
Non-derivatives:				
Assets				
Cash at bank and in hand	**253**	102	**253**	102
Short-term investments *(a)*	**2,051**	3,278	**2,052**	3,286
Fixed asset investments – loans to joint ventures *(b)*	**1,073**	247	**1,073**	247
Liabilities				
Short-term borrowings *(c)*	**5,121**	372	**5,121**	372
Long-term borrowings, excluding finance leases *(d)*	**5,874**	3,946	**6,085**	4,479
Derivatives relating to investments and borrowings (net) *(e)*:				
Assets	**44**	100	**–**	–
Liabilities	**–**	–	**100**	142

(a) The fair value of listed short-term investments were estimated based on quoted market prices for those investments. The carrying amount of the other short-term deposits and investments approximated to their fair values due to the short maturity of the instruments held.

(b) The fair value of loans to joint ventures approximated to carrying value due to loans bearing commercial rates of interest.

(c) The fair value of short-term borrowings approximated to carrying value due to the short maturity of the instruments.

(d) The fair value of the group's bonds, debentures, notes and other long-term borrowings has been estimated on the basis of quoted market prices for the same or similar issues with the same maturities where they existed, and on calculations of the present value of future cash flows using the appropriate discount rates in effect at the balance sheet dates, where market prices of similar issues did not exist.

(e) The fair value of the group's outstanding foreign currency and interest rate swap agreements was estimated by calculating the present value, using appropriate discount rates in effect at the balance sheet dates, of affected future cash flows translated, where appropriate, into pounds sterling at the market rates in effect at the balance sheet dates.

The following information is provided in accordance with the requirements of FRS 13 – "Derivatives and other financial instruments: disclosures". Except for disclosures under *currency exposures* below, the financial information excludes all of the group's short-term debtors and creditors.

Financial liabilities

After taking into account the various interest rate swaps and forward foreign currency contracts entered into by the group, the interest rate profile of the group's financial liabilities at 31 March was:

	2000				1999*(a)*			
	Fixed rate financial liabilities £m	**Floating rate financial liabilities £m**	**Financial liabilities on which no interest is paid £m**	**Total £m**	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Financial liabilities on which no interest is paid £m	Total £m
Currency:								
Sterling	**2,429**	**6,686**	**376**	**9,491**	2,395	1,592	302	4,289
US dollar	**353**	**83**	**7**	**443**	1,662	(1,654)	–	8
Euro	**424**	**389**	**30**	**843**	303	2	24	329
Yen	**508**	**–**	**1**	**509**	–	–	–	–
Other	**–**	**111**	**4**	**115**	–	9	–	9
Total	**3,714**	**7,269**	**418**	**11,401**	4,360	(51)	326	4,635

(a) Comparative figures have been restated.

32. Financial instruments and risk management (continued)

For the fixed rate financial liabilities, the average interest rates and the average periods for which the rates are fixed are:

	2000		1999	
	Weighted average interest rate %	**Weighted average period for which rate is fixed Years**	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Currency:				
Sterling	**9.1**	**15**	9.5	9
US dollar	**8.7**	**8**	7.2	5
Euro	**5.8**	**8**	5.6	8
Yen	**1.2**	**4**	–	–
Total	**7.6**	**12**	8.4	7

The floating rate financial liabilities bear interest at rates fixed in advance for periods ranging from one day to one year by reference to LIBOR. The financial liabilities on which no interest is paid are due to mature within one year of the balance sheet date.

The maturity profile of financial liabilities is as given in note 21.

Financial assets

After taking into account the various interest rate swaps and forward foreign currency contracts entered into by the group, the interest rate profile of the group's financial assets at 31 March was:

	2000				1999*(a)*			
	Fixed rate financial assets £m	**Floating rate financial assets £m**	**Financial assets on which no interest is paid £m**	**Total £m**	Fixed rate financial assets £m	Floating rate financial assets £m	Financial assets on which no interest is paid £m	Total £m
Currency:								
Sterling	**395**	**2,869**	**265**	**3,529**	273	2,898	237	3,408
US dollar	**–**	**31**	**–**	**31**	–	369	–	369
Euro	**–**	**53**	**–**	**53**	–	57	–	57
Other	**–**	**29**	**–**	**29**	–	30	–	30
Total	**395**	**2,982**	**265**	**3,642**	273	3,354	237	3,864

(a) Comparative figures have been restated.

The sterling fixed rate financial assets yield interest at a weighted average of 6.6% (1999 – 5.5%) for a weighted average period of 18 months (1999 – 15 months).

The floating rate financial assets bear interest at rates fixed in advance for periods up to one year by reference to LIBOR.

32. Financial instruments and risk management (continued)

Currency exposures

The table below shows the currency exposures of the group's net monetary assets (liabilities), in terms of those transactional exposures that give rise to net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the group that are not denominated in the operating (or "functional") currency of the operating unit involved, other than certain non-sterling borrowings treated as hedges of net investments in non-UK operations. At 31 March, these exposures were as follows:

					2000					1999
	Sterling £m	**US dollar £m**	**Euro £m**	**Other £m**	**Total £m**	Sterling £m	US dollar £m	Euro £m	Other £m	Total £m
Functional currency of group operation:										
Sterling	**–**	**13**	**117**	**29**	**159**	–	517	38	25	580
Euro	**6**	**(1)**	**–**	**–**	**5**	(6)	–	–	(18)	(24)
Other	**(10)**	**–**	**–**	**–**	**(10)**	(16)	5	–	–	(11)
Total	**(4)**	**12**	**117**	**29**	**154**	(22)	522	38	7	545

The amounts shown in the table above take into account the effect of any currency swaps, forward contracts and other derivatives entered into to manage those currency exposures.

At 31 March 2000, the group also held various forward currency contracts that the group had taken out to hedge expected future foreign currency purchases and sales.

Fair values of financial assets held for trading

	2000 £m	1999 £m
Net gain included in profit and loss account	**51**	104
Fair value of financial assets held for trading at 31 March	**980**	1,944

The net gain was derived from government bonds, commercial paper and similar debt instruments. The average fair value of financial assets held during the year ended 31 March 2000 did not differ materially from the year end position.

Hedges

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised and deferred gains and losses on instruments used for hedging and those recognised in the years ended 31 March 2000 and 31 March 1999 are as follows:

		2000		1999*(b)*
	Gains £m	**Losses £m**	Gains £m	Losses £m
Gains and losses:				
recognised in the year but arising in previous years *(a)*	**51**	**23**	28	26
unrecognised at the balance sheet date	**23**	**193**	38	279
carried forward in the year end balance sheet, pending recognition in the profit and loss account *(a)*	**99**	**15**	40	6
expected to be recognised in the following year *(a)*	**35**	**31**	27	26

(a) Excluding gains and losses on hedges accounted for by adjusting the carrying amount of a fixed asset.
(b) Comparative figures have been restated.

33. Segmental analysis

The following information is provided as required by the US accounting standard, SFAS No. 131, on disclosures about segments of an enterprise. The information presented is required to be based on the segmental operating results regularly reviewed by the group's chief operating decision maker (the CEO).

The group is a unitary business providing an integrated range of services and has been managed on this basis. For the purposes of exercising day-to-day managerial and budgetary control, the business is divided internally into divisions but these divisions are not self-standing businesses. Control is exercised by comparing performance against budgets agreed in advance. The CEO reviews the turnover and operating results for each main division. The group's capital expenditure programmes are largely centrally driven and are not necessarily linked to individual divisions. For this reason it is group policy not to allocate certain assets to individual divisions, although depreciation charges are allocated.

Since September 1997, the group has been organised into two main divisions BT UK and BT Worldwide (formerly named BT Global and previously Global Communications) in order to reflect the group's two distinctive geographical operating regions and customer groups. Substantially all of the group's operations are within the UK and, of those, the majority are currently managed by BT UK. During the year ended 31 March 2000 and progressively from 1 October 1998, BT UK was sub-divided into ten separate business units, the principal five of which were Markets, Enterprises, Networks and Systems, Mobility, and Products and Solutions. Markets was the division providing the customer facing links for the group's fixed network services and Enterprises managed the Yellow Pages classified directory business and the group's wholesale interconnect business with other operators. Networks and Systems provided the UK fixed network as a platform for these services. Mobility provided the group's UK mobile communication services, principally via BT Cellnet. Products and Solutions managed the group's outsourcing services.

Prior to 30 September 1998, the Consumer Division within BT UK provided fixed network telecommunication services for residential customers, principally the provision of exchange lines to customers' homes and calls to and from those homes. The Business Division provided fixed network services to businesses and organisations other than multinational companies, principally the provision of exchange lines, private services and calls to and from the places of business and customer premises equipment. The Networks and Systems Division built, maintained and operated the company's fixed telecommunications network in the UK. Mobile Communications provided the group's UK mobile communications services. Other units within BT UK provided the group's classified advertising directories and outsourcing services.

BT Worldwide provided telecommunication services to multinational companies, including those based in the UK, and international incoming, outgoing and transit telecommunication services. It was responsible for managing Concert Communications and the group's other non-UK operations, and investments in non-UK joint ventures and associates.

The following information for the years ended 31 March 1998 and 1999 is based on the divisional organisation of the group at 1 April 1998, described above. As already noted, the BT UK organisation was changed progressively from 1 October 1998 into a substantially different form. Financial information in its new form was made available to the senior management of the group with respect to accounting periods from 1 April 1999.

It has not been practicable to restate the segment information for the years ended 31 March 1999 and 1998 onto the segment basis presented for the year ended 31 March 2000.

In April 2000, the group announced a restructuring whereby the group and its ventures would be managed in four global businesses and two UK operating divisions, together with the Concert global venture. The four global businesses are: Ignite responsible for broadband and internet networks; BTopenworld covering the consumer market for internet products around the world; BT Wireless covering the group's global interests in mobile communications; and Yell, responsible for the classified directories and associated e-commerce businesses. The two UK operating divisions will be a wholesale division covering the UK fixed network and a retail division responsible for marketing UK fixed-network products.

33. Segmental analysis (continued)

Year ended 31 March 2000	Turnover External £m	Turnover Internal £m	Depreciation and amortisation £m	Operating profit (loss) of associates and joint ventures £m	Total operating profit (loss) £m
Markets	11,636	8	67	(9)	2,564
Enterprises	3,114	328	100	(4)	835
Networks & Systems	3	–	1,812	–	4
Mobility	2,170	391	305	8	117
Products and Solutions	197	368	76	(103)	240
Other	10	2	132	–	(175)
Eliminations	–	(1,004)	–	–	–
Total BT UK	**17,130**	**93**	**2,492**	**(108)**	**3,585**
BT Worldwide	1,540	129	176	(335)	(520)
Other	45	10	173	43	133
Eliminations	–	(232)	–	–	–
Group totals	**18,715**	**–**	**2,841**	**(400)**	**3,198**

Year ended 31 March 1999					
Business Division	5,624	294	106	–	1,535
Consumer Division	6,168	140	113	(7)	1,998
Networks & Systems	108	–	1,716	(3)	96
Mobile Communications	1,400	312	195	6	189
Other	1,282	1,877	126	(38)	(93)
Eliminations	–	(2,351)	–	–	–
Total BT UK	**14,582**	**272**	**2,256**	**(42)**	**3,725**
BT Worldwide	2,361	984	145	(292)	(327)
Other	10	847	180	(8)	76
Eliminations	–	(2,103)	–	–	–
Group totals	**16,953**	**–**	**2,581**	**(342)**	**3,474**

Year ended 31 March 1998					
Business Division	5,611	419	121	–	1,447
Consumer Division	5,885	101	127	–	1,438
Networks & Systems	148	–	1,720	(2)	61
Mobile Communications	764	408	149	(3)	186
Other	897	1,351	102	(2)	85
Eliminations	–	(878)	–	–	–
Total BT UK	**13,305**	**1,401**	**2,219**	**(7)**	**3,217**
BT Worldwide	2,262	150	70	(217)	(105)
Other	73	1,029	106	28	349
Eliminations	–	(2,580)	–	–	–
Group totals	**15,640**	**–**	**2,395**	**(196)**	**3,461**

Transactions between divisions are at prices set in accordance with those agreed with Oftel where the services provided are subject to regulation. Other transactions are at arms length. Internal supplies of services from Networks & Systems are accounted for by that division as negative costs.

33. Segmental analysis (continued)

Information about geographic areas:

	2000 £m	1999 £m	1998 £m
Turnover with external customers:			
Attributable to UK	**17,161**	15,612	14,384
Attributable to non-UK countries *(a)*	**1,554**	1,341	1,256
Group turnover	**18,715**	16,953	15,640

(a) Turnover attributable to non-UK countries comprises the external turnover of group companies and branches operating outside the UK, income from non-UK operators for calls terminating in or in transit through the UK and turnover with non-UK joint ventures and associates.

	2000 £m	1999 £m
Group fixed assets are located:		
UK	**20,940**	18,271
Europe, excluding the UK	**3,935**	1,304
Americas	**2,549**	218
Asia and Pacific	**2,394**	635
Total	**29,818**	20,428

Geographical segment analysis in accordance with the requirements of SSAP 25 is as follows:

	2000 £m	1999 £m	1998 £m
Total turnover on basis of origin			
UK	**17,975**	16,485	15,155
Europe, excluding the UK	**1,891**	1,231	519
Americas	**979**	237	208
Asia and Pacific	**1,058**	270	157
Total – ongoing	**21,903**	18,223	16,039
Americas – discontinued	**–**	–	1,372
Total	**21,903**	18,223	17,411

	2000 £m	1999 £m	1998 £m
Group turnover on basis of origin			
UK	**17,866**	16,364	15,088
Europe, excluding the UK	**285**	240	236
Americas	**383**	237	208
Asia and Pacific	**181**	112	108
Total	**18,715**	16,953	15,640

The analysis of turnover by geographical area is stated on the basis of origin. In an analysis of turnover by destination, incoming and transit international calls by country of origin and turnover with non-UK joint ventures and associates would be treated differently but would not lead to a materially different geographical analysis. See the "information about geographic areas" above.

33. Segmental analysis (continued)

	2000 £m	1999 £m	1998 £m
Group operating profit (loss)			
UK	**3,621**	3,858	3,684
Europe, excluding the UK	**(42)**	(31)	(14)
Americas	**34**	4	14
Asia and Pacific	**(15)**	(15)	(27)
Total	**3,598**	3,816	3,657

	2000 £m	1999 £m	1998 £m
Share of operating results of associates and joint ventures, including goodwill amortisation – profits (losses)			
UK	**(118)**	(13)	(5)
Europe, excluding the UK	**(312)**	(307)	(219)
Americas	**43**	–	–
Asia and Pacific	**(13)**	(22)	3
Total – ongoing	**(400)**	(342)	(221)
Americas – discontinued	**–**	–	25
Total	**(400)**	(342)	(196)

	2000			1999		
Year ended 31 March	**Net operating assets £m**	**Associates and joint ventures £m**	**Total £m**	Net operating assets (liabilities) £m	Associates and joint ventures £m	Total £m
UK	**16,428**	**17**	**16,445**	14,509	30	14,539
Europe, excluding the UK	**2,232**	**1,296**	**3,528**	(2)	905	903
Americas	**653**	**1,724**	**2,377**	129	–	129
Asia and Pacific	**156**	**2,188**	**2,344**	(9)	565	556
Total	**19,469**	**5,225**	**24,694**	14,627	1,500	16,127

Net operating assets comprise tangible and intangible fixed assets, stocks, debtors less creditors, excluding loans and other borrowings, and provisions for liabilities and charges, excluding deferred tax.

United States Generally Accepted Accounting Principles

The group's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the UK (UK GAAP), which differ in certain respects from those applicable in the US (US GAAP).

I Differences between United Kingdom and United States generally accepted accounting principles

The following are the main differences between UK and US GAAP which are relevant to the group's financial statements.

(a) Pension costs

Under UK GAAP, pension costs are accounted for in accordance with UK Statement of Standard Accounting Practice No. 24, costs being charged against profits over employees' working lives. Under US GAAP, pension costs are determined in accordance with the requirements of US Statements of Financial Accounting Standards (SFAS) Nos. 87 and 88. Differences between the UK and US GAAP figures arise from the requirement to use different actuarial methods and assumptions and a different method of amortising surpluses or deficits.

(b) Accounting for redundancies

Under UK GAAP, the cost of providing incremental pension benefits in respect of workforce reductions is taken into account when determining current and future pension costs, unless the most recent actuarial valuation, combined with the provision for pension costs in the group balance sheet, under UK actuarial conventions shows a deficit. In this case, the cost of providing incremental pension benefits is included in redundancy charges in the year in which the employees agree to leave the group.

Under US GAAP, the associated costs of providing incremental pension benefits are charged against profits in the period in which the termination terms are agreed with the employees.

(c) Capitalisation of interest

Under UK GAAP, the group does not capitalise interest in its financial statements. To comply with US GAAP, the estimated amount of interest incurred whilst constructing major capital projects is included in fixed assets, and depreciated over the lives of the related assets. The amount of interest capitalised is determined by reference to the average interest rates on outstanding borrowings. At 31 March 2000 under US GAAP, gross capitalised interest of £349 million (1999 – £499 million) with regard to the company and its subsidiary companies was subject to depreciation generally over periods of 3 to 25 years.

(d) Goodwill

Under UK GAAP, in respect of acquisitions completed prior to 1 April 1998, the group wrote off goodwill arising from the purchase of subsidiary undertakings, associates and joint ventures on acquisition against retained earnings. The goodwill is reflected in the net income of the period of disposal, as part of the calculation of the gain or loss on divestment. Under US GAAP, such goodwill is held as an intangible asset in the balance sheet and amortised over its useful life and only the unamortised portion is included in the gain or loss recognised at the time of divestment. Gross goodwill under US GAAP at 31 March 2000 of £7,978 million (1999 – £1,957 million) was subject to amortisation over periods of 3 to 20 years. The value of goodwill is reviewed annually and the net asset value is written down if a permanent diminution in value has occurred. Under UK GAAP, goodwill arising on acquisitions completed on or after 1 April 1998 is generally accounted for in line with US GAAP.

(e) Mobile cellular telephone licences, software and other intangible assets

Certain intangible fixed assets recognised under US GAAP purchase accounting requirements are subsumed within goodwill under UK GAAP. Under US GAAP these separately identified intangible assets are valued and amortised over their useful lives.

(f) Financial instruments

Under UK GAAP, investments are held on the balance sheet at historical cost, and own shares held in trust for share schemes are recorded in fixed asset investments. Gains and losses on instruments used for hedges are not recognised until the exposure being hedged is recognised. Under US GAAP, trading securities and available-for-sale securities are carried at market value with appropriate valuation adjustments recorded in profit and loss and shareholders' equity, respectively. Certain derivative financial instruments which qualify as hedge accounting under UK GAAP do not qualify for hedge

accounting under US GAAP. These financial instruments, under US GAAP, are carried at market value with valuation adjustments recorded in profit and loss. Own shares held in trust are treated as a reduction to shareholders' equity until they are reissued to employees. The reassessment and purchase of derivatives in the year ended 31 March 2000 gave rise to an adjustment reducing net income by £95 million. The net unrealised holding gain on available-for-sale securities for the year ended 31 March 2000 was £311 million (1999 – £76 million, 1998 – £1,315 million relating primarily to the investment in MCI).

(g) Deferred gain

Under UK GAAP, assets contributed to a joint venture by the group's partners are measured at their net replacement cost. Any difference between the group's share of the joint venture's resulting net assets and the net book value of assets contributed by the group to the joint venture, including certain accrued start up costs, is immediately reflected by adjusting the group's investment in the joint venture and recording a deferred difference in shareholders' equity. Under US GAAP, the assets contributed by all joint venture partners are carried at their historical net book value and any difference between the group's share of the joint venture's resulting net assets and the net book value of assets contributed by the group to the joint venture is amortised over the life of the items giving rise to the difference.

(h) Deferred taxation

Under UK GAAP, provision for deferred taxation is generally only made for timing differences which are expected to reverse. Under US GAAP, deferred taxation is provided on a full liability basis on all temporary differences as defined in SFAS No. 109.

At 31 March 2000, the adjustment of £1,377 million (1999 – £1,424 million) reconciling ordinary shareholders' equity under UK GAAP to the approximate amount under US GAAP included the tax effect of other US GAAP adjustments. This comprised an adjustment increasing non-current assets by £25 million (1999 – £59 million increase); an adjustment increasing current assets by £63 million (1999 – £50 million increase); an adjustment decreasing minority interests by £35 million (1999 – £11 million decrease) and an adjustment increasing long-term liabilities by £1,500 million (1999 – £1,544 million increase).

(i) Dividends

Under UK GAAP, dividends are recorded in the year in respect of which they are declared (in the case of interim or any special dividends) or proposed by the board of directors to the shareholders (in the case of final dividends). Under US GAAP, dividends are recorded in the period in which dividends are declared.

II Net income and shareholders' equity reconciliation statements

The following statements summarise the material estimated adjustments, gross of their tax effect, which reconcile net income and shareholders' equity from that reported under UK GAAP to that which would have been reported had US GAAP been applied.

Net income

Years ended 31 March	**2000 £m**	1999 £m	1998 £m
Net income applicable to shareholders under UK GAAP	**2,055**	2,983	1,702
Adjustment for:			
Pension costs	**(209)**	(104)	(66)
Redundancy charges	**(300)**	(284)	(253)
Capitalisation of interest, net of related depreciation *(a)*	**(14)**	(19)	(38)
Goodwill amortisation *(a)*	**(64)**	85	(71)
Mobile licences, software and other intangible asset capitalisation and amortisation, net *(a)*	**(33)**	(226)	42
Financial instruments	**(129)**	(6)	5
Deferred gain	**(19)**	–	–
Deferred taxation *(a)*	**106**	220	163
Other items *(a)*	**–**	(60)	(37)
Net income as adjusted for US GAAP	**1,393**	2,589	1,447
Basic earnings per American Depositary Share as adjusted for US GAAP *(b)*	**£2.15**	£4.02	£2.27
Diluted earnings per American Depositary Share as adjusted for US GAAP *(b)*	**£2.10**	£3.93	£2.23

(a) The disposal of the group's interest in MCI shares during the year ended 31 March 1999 gave rise to adjustments; increasing net income by £163 million relating to goodwill and £95 million relating to deferred taxation and decreasing net income by £197 million relating to software and other intangible assets, £60 million relating to foreign exchange translation differences and £5 million relating to the capitalisation of interest.

(b) Each American Depositary Share is equivalent to 10 ordinary shares of 25p each.

Shareholders' equity

At 31 March	**2000 £m**	1999 £m
Shareholders' equity under UK GAAP	**15,795**	14,940
Adjustment for:		
Pension costs	**(2,202)**	(1,730)
Redundancy costs	**(83)**	(46)
Capitalisation of interest, net of related depreciation	**261**	245
Goodwill, net of accumulated amortisation	**175**	293
Mobile licences, software and other intangible asset capitalisation and amortisation	**533**	628
Financial instruments	**(99)**	5
Deferred gain	**(230)**	–
Deferred taxation	**(1,377)**	(1,424)
Dividend declared after the financial year end	**861**	799
Other items	**–**	(36)
Shareholders' equity as adjusted for US GAAP	**13,634**	13,674

III Minority interests

Under US GAAP, the loss to minority interests would have been increased by £10 million (1999 – income reduced by £12 million, 1998 – income reduced by £5 million) after adjusting for goodwill amortisation and accounting for associates and joint ventures. Net assets attributable to minority interests would have been £82 million higher (1999 – £88 million higher) after adjusting for financial instruments.

IV Accounting for share options

Under UK GAAP, the company does not recognise compensation expense for the fair value, at the date of grant, of share options granted under the employee share option schemes. Under US GAAP, the company adopted the disclosure-only option in SFAS No. 123 "Accounting for Stock-Based Compensation". Accordingly, the company accounts for share options in accordance with APB Opinion No. 25 "Accounting for Stock Issued to Employees", under which no compensation expense is recognised. Had the group expensed compensation cost for options granted in accordance with SFAS No. 123, the group's pro forma net income, basic earnings per share and diluted earnings per share under US GAAP would have been £1,347 million (1999 – £2,560 million, 1998 – £1,432 million), 20.8p (1999 – 39.7p, 1998 – 22.4p) and 20.3p (1999 – 38.8p, 1998 – 22.1p), respectively. The SFAS No. 123 method of accounting does not apply to share options granted before 1 January 1995, and accordingly, the resulting pro forma compensation costs may not be representative of that to be expected in future years. See note 30 for the SFAS No. 123 disclosures of the fair value of options granted under employee schemes at date of grant.

V Consolidated statements of cash flows

Under UK GAAP, the Consolidated Statements of Cash Flows are presented in accordance with UK Financial Reporting Standard No. 1 (FRS 1). The statements prepared under FRS 1 present substantially the same information as that required under SFAS No. 95.

Under SFAS No. 95 cash and cash equivalents include cash and short-term investments with original maturities of three months or less. Under FRS 1 cash comprises cash in hand and at bank and overnight deposits, net of bank overdrafts.

Under FRS 1, cash flows are presented for operating activities; returns on investments and servicing of finance; taxation; capital expenditure and financial investments; acquisitions and disposals; dividends paid to the company's shareholders; management of liquid resources and financing. SFAS No. 95 requires a classification of cash flows as resulting from operating, investing and financing activities.

Cash flows under FRS 1 in respect of interest received, interest paid (net of that capitalised under US GAAP) and taxation would be included within operating activities under SFAS No. 95. Cash flows from purchases, sales and maturities of trading securities, while not separately identified under UK GAAP, would be included within operating activities under US GAAP. Capitalised interest, while not recognised under UK GAAP, would be included in investing activities under US GAAP. Dividends paid would be included within financing activities under US GAAP.

The following statements summarise the statements of cash flows as if they had been presented in accordance with US GAAP, and include the adjustments which reconcile cash and cash equivalents under US GAAP to cash at bank and in hand reported under UK GAAP.

	2000 £m	1999 £m	1998 £m
Net cash provided by operating activities	**4,003**	3,876	3,847
Net cash used in investing activities	**(9,104)**	(950)	(4,198)
Net cash provided by (used in) financing activities	**4,697**	(1,665)	(1,647)
Net increase (decrease) in cash and cash equivalents	**(404)**	1,261	(1,998)
Effect of exchange rate changes on cash	**(1)**	33	21
Cash and cash equivalents under US GAAP at beginning of year	**1,660**	366	2,343
Cash and cash equivalents under US GAAP at end of year	**1,255**	1,660	366
Short-term investments with original maturities of less than 3 months	**(1,002)**	(1,558)	(304)
Cash at bank and in hand under UK GAAP at end of year	**253**	102	62

VI Current asset investments

Under US GAAP, investments in debt securities would be classified as either trading, available-for-sale or held-to-maturity. Trading investments would be stated at fair values and the unrealised gains and losses would be included in income. Securities classified as available-for-sale would be stated at fair values, with unrealised gains and losses, net of deferred taxes, reported in shareholders' equity. Debt securities classified as held-to-maturity would be stated at amortised cost. The following analyses do not include securities with original maturities of less than three months.

At 31 March 2000, the group held trading investments (as defined by US GAAP) at a carrying amount of £866 million (1999 – £1,678 million) with fair values totalling £873 million (1999 – £1,678 million). Held-to-maturity securities at 31 March 1999 and 2000 consisted of the following:

	Amortised cost £m	Estimated fair value £m
UK Government securities and other UK listed investments	15	15
Commercial paper, medium term notes and other investments	168	168
Total at 31 March 2000	**183**	**183**
UK Government securities and other UK listed investments	25	25
Commercial paper, medium term notes and other investments	18	18
Total at 31 March 1999	43	43

The contractual maturities of the held-to-maturity debt securities at 31 March 2000 were as follows:

	Cost £m	Fair value £m
Maturing on or before 31 March 2001	25	25
Maturing after 31 March 2001	158	158
Total at 31 March 2000	**183**	**183**

VII Pension costs

The following position for the main pension scheme is computed in accordance with US GAAP pension accounting rules under SFAS No. 87 and SFAS No. 88, the effect of which is shown in the above reconciliation statements.

The pension cost determined under SFAS No. 87 was calculated by reference to an expected long-term rate of return on scheme assets of 6.5% (1999 – 7.7%, 1998 – 8.2%). The components of the pension cost for the main pension scheme comprised:

	2000 £m	1999 £m	1998 £m
Service cost	**498**	387	327
Interest cost	**1,459**	1,653	1,554
Expected return on scheme assets	**(1,600)**	(1,712)	(1,595)
Amortisation of prior service costs	**24**	24	24
Amortisation of net obligation at date of limited application of SFAS No. 87	**52**	52	52
Recognised gains	**(65)**	(137)	(129)
Additional cost of termination benefits	**263**	279	224
Pension cost for the year under US GAAP	**631**	546	457

VII Pension costs (continued)

The information required to be disclosed in accordance with SFAS No. 132 concerning the funded status of the main scheme at 31 March 1999 and 31 March 2000, based on the valuations at 1 January 1999 and 1 January 2000, respectively, is given below.

	2000 £m	1999 £m
Changes in benefit obligation		
Benefit obligation at the beginning of the year	**27,158**	23,513
Service cost	**498**	387
Interest cost	**1,459**	1,653
Employees' contributions	**171**	163
Additional cost of termination benefits	**263**	279
Actuarial movement *(a)*	**2,992**	2,361
Other changes	**21**	25
Benefits paid or payable	**(1,538)**	(1,223)
Benefit obligation at the end of the year	**31,024**	27,158

	2000 £m	1999 £m
Changes in scheme assets		
Fair value of scheme assets at the beginning of the year	**25,120**	22,666
Actual return on scheme assets	**5,619**	3,050
Employers' contributions *(b)*	**483**	439
Employees' contributions	**171**	163
Other changes	**21**	25
Benefits paid or payable	**(1,538)**	(1,223)
Fair value of scheme assets at the end of the year	**29,876**	25,120

	2000 £m	1999 £m
Funded status under US GAAP		
Projected benefit obligation in excess of scheme assets	**(1,148)**	(2,038)
Unrecognised net obligation at date of initial application of SFAS No. 87 *(c)*	**158**	210
Unrecognised prior service costs *(d)*	**175**	199
Other unrecognised net actuarial gains	**(2,001)**	(1,039)
Accrued pension costs under US GAAP	**(2,816)**	(2,668)

(a) In the year ended 31 March 2000, the actuarial movement is significant mainly due to revised mortality assumptions being employed in the year. The actuarial movement in the year ended 31 March 1999 is significant due to the decline in the discount rates used to calculate the benefit obligation as a result of the fall in long-term interest rates in 1998.

(b) The employers' contributions for the year ended 31 March 2000 include a special contribution of £230 million paid on 31 March 2000 (1999 – £200 million).

(c) The unrecognised net obligation at the date of initial application is being amortised over 15 years from 1 April 1988.

(d) Unrecognised prior service costs on scheme benefit improvements, are being amortised over periods of 15 or 16 years commencing in the years of the introduction of the improvements.

The benefit obligation for the main pension scheme was determined using the following assumptions at 1 January 1999 and 1 January 2000:

	2000 per annum %	1999 per annum %
Discount rate	**5.5**	5.5
Rate of future pay increases	**4.8**	4.8

The determination also took into account requirements in the scheme as to future pension increases.

Subsidiary undertakings, joint ventures and associates

Brief details of principal operating subsidiary undertakings, joint ventures and associates at 31 March 2000, all of which were unlisted unless otherwise stated, were as follows:

	Activity	Group interest in allotted capital*(a)*	Country of operations*(b)*
Subsidiary undertakings			
BT Australasia Pty Limited *(c)*	Communication related services and products provider	100% ordinary 100% preference	Australia
BT Cableships Limited *(c)*	Cableship owner	100% ordinary	International
BT Communications Management Limited *(c)*	Telecommunication services provider	100% ordinary	UK
BT (Hong Kong) Limited *(c)*	Communication related services and products provider	100% ordinary 100% preference	Hong Kong
BT North America Inc *(c)*	Communication related services and products provider	100% common	USA
BT Property Limited *(c)*	Property holding company	100% ordinary	UK
BT Subsea Cables Limited	Cable maintenance and repair	100% ordinary	UK
BT Telecomunicaciones SA *(c)*	Communication related services and products provider	100% ordinary	Spain
BT (Worldwide) Limited *(c)*	International telecommunication network systems provider	100% ordinary	International
Cellnet Group Limited	Holding company for the BT Cellnet group *(d)*	100% ordinary	UK
Clear Communications Limited *(c)*	Communication related services and products provider	100% ordinary	New Zealand
Syntegra (USA) Inc *(b)(c)(e)*	Systems integration and electronic business outsourcing services	100% common	International
Esat Telecom Group Plc *(c)(f)*	Telecommunication services provider	100% ordinary	Ireland
Farland BV *(b)(c)*	Provider of trans-border fibre network across BT's partners in Europe	100% ordinary	International
Manx Telecom Limited *(c)*	Telecommunication services supplier	100% ordinary	Isle of Man
Martin Dawes Telecommunications Limited *(c)(g)(h)*	Cellular telecommunication services provider	100% ordinary	UK
Syntegra Groep BV *(c)*	Systems integration and application development	100% common	Netherlands
Syntegra SA *(c)*	Systems integration and application development	100% ordinary	France
Telecom Securicor Cellular Radio Limited *(c)*	Mobile cellular telephone system provider and operator	100% ordinary	UK
Yellow Book USA Inc *(c)*	Classified directory publisher	100% common	USA
Yellow Pages Sales Limited *(c)*	Yellow Pages sales contractor	100% ordinary	UK

(a) The proportion of voting rights held corresponds to the aggregate interest percentage held by the holding company and subsidiary undertakings, unless otherwise stated.

(b) All overseas undertakings are incorporated in their country of operations. Subsidiary undertakings operating internationally are all incorporated in England and Wales, except Farland BV and Syntegra (USA) Inc, which are incorporated in the Netherlands and USA respectively.

(c) Held through intermediate holding company.

(d) Cellnet trades as BT Cellnet.

(e) Formerly Control Data Systems Inc.

(f) BT acquired control of Esat in March 2000 following a public offer. The interests of dissident shareholders are in the process of being compulsorily acquired. Esat has a 31 December accounting reference date.

(g) Held by Telecom Securicor Cellular Radio Limited.

(h) In May 2000, Martin Dawes Telecommunications Limited changed its name to Lumina Limited and trades as BT Cellnet Lumina.

Subsidiary undertakings, joint ventures and associates

b = billions m = millions	Activity	Share capital Issued*(a)*	Percentage owned	Country of operations*(b)*
Joint Ventures				
Airtel Movil SA *(c)*	Mobile cellular telephone system provider and operator	Ptas 78b	17.8%	Spain
Albacom SpA	Communication related services and products provider	ITL 543b	23%	Italy
Bharti Cellular Limited	Mobile cellular telephone system provider and operator	Rs1.05b	44%	India
British Interactive Broadcasting Holdings Limited	Digital tv interactive service provider	£0.1m	32.5%	UK
Concert BV	Global communication related services and products provider	NLG 50m	100%*(d)*	International
LG Telecom	Mobile cellular telephone system provider and operator	Won 953b	24.12%	Republic of Korea
Springboard Internet Services Limited	Internet service provider	£8.3m	50%	UK
Sunrise Communications AG	Communication related services and products provider	SFr 40m	34%	Switzerland
Telenordia AB	Communication related services and products provider	SKr106m	33.3%	Sweden
Telfort BV	Communication related services and products provider	NLG 0.5m	50%	Netherlands
VIAG INTERKOM GmbH & Co	Communication related services and products provider	Partnership	45%	Germany

(a) Issued share capital comprises ordinary or common shares, unless otherwise stated. All investments, except Sunrise Communications AG, are held through intermediate holding companies.

(b) All overseas companies are incorporated in their country of operations, with the exception of Concert BV which is incorporated in the Netherlands.

(c) Airtel Movil SA is being accounted for as a joint venture because of the relationship with other shareholders.

(d) 100% of ordinary 'B' shares held giving an effective economic interest of 50%.

b = billions m = millions	Activity	Share Capital Issued*(a)*	Percentage owned	Country of operations*(b)*
Associates				
AT&T BT Canada Holdings Limited Partnership *(c)*	Partnership holding of a communications related services and products provider	Partnership	30% *(c)*	USA
Maxis Communications Berhad *(d)(e)*	Communications related services and products provider	Myr 158m	33.3%	Malaysia
Cegetel SA	Communications related services and products provider	FFr 9.55b	26%	France
Cellular Operations Limited	Cellular telecommunications services provider	£0.15m	40%	UK
Japan Telecom Company Limited	Communications related services and products provider	¥32b	30% *(f)*	Japan
Rogers Cantel Mobile Communications Inc	Mobile cellular telephone system provider and operator	–	16.8% *(g)*	Canada
SmarTone Telecommunications Holdings Limited	Mobile cellular telephone system provider and operator	HK$60m	20.05%	Hong Kong
The Link Stores Limited	Telecommunications equipment retailer	£80	40%	UK

(a) Issued share capital comprises ordinary or common shares, unless otherwise stated. All investments are held through intermediate holding companies.

(b) All overseas undertakings are incorporated in their country of operations.

(c) Holds an effective 31% economic interest in AT&T Canada Corporation.

(d) Certain exchange control constraints operate in Malaysia.

(e) Formerly Binariang Berhad.

(f) Held through a BT subsidiary company – 66.7% BT owned, 33.3% AT&T owned. Economic holding is 20%.

(g) Held through a 50% interest in an intermediary company, which holds 33.6% of Rogers Cantel Mobile Communications Inc.

Quarterly analysis of turnover and profit

(Unaudited) Year ended 31 March 2000	Quarters	1st £m	2nd £m	3rd £m	4th £m	**Total £m**
Total turnover		4,987	5,329	5,585	6,002	**21,903**
Group's share of associates' and joint ventures' turnover		(457)	(627)	(845)	(1,435)	**(3,364)**
Trading between group and principal joint venture		–	–	–	176	**176**
Group turnover		4,530	4,702	4,740	4,743	**18,715**
Other operating income		33	46	31	132	**242**
Group operating profit		930	998	869	801	**3,598**
Group's share of operating loss of associates and joint ventures		(95)	(129)	(108)	(68)	**(400)**
Total operating profit		835	869	761	733	**3,198**
Profit on sale of fixed asset investments and group undertakings		–	90	–	36	**126**
Net interest payable		(63)	(69)	(110)	(140)	**(382)**
Profit on ordinary activities before taxation		772	890	651	629	**2,942**
Tax on profit on ordinary activities		(235)	(272)	(198)	(192)	**(897)**
Profit on ordinary activities after taxation		537	618	453	437	**2,045**
Minority interests		(3)	7	–	6	**10**
Profit for the financial period		534	625	453	443	**2,055**
Basic earnings per share		8.3p	9.6p	7.0p	6.8p	**31.7p**
Diluted earnings per share		8.1p	9.4p	6.8p	6.7p	**30.9p**
Profit before goodwill amortisation, exceptional items and taxation		804	832	722	742	**3,100**
Basic earnings per share before goodwill amortisation and exceptional items		8.7p	9.1p	8.0p	8.4p	**34.2p**
Diluted earnings per share before goodwill amortisation and exceptional items		8.5p	8.9p	7.8p	8.2p	**33.4p**

Quarterly analysis of turnover and profit

(Unaudited) Year ended 31 March 1999 Quarters	1st £m	2nd £m	3rd £m	4th £m	**Total £m**
Total turnover	4,239	4,403	4,684	4,897	**18,223**
Group's share of associates' and joint ventures' turnover	(196)	(246)	(410)	(418)	**(1,270)**
Group turnover	4,043	4,157	4,274	4,479	**16,953**
Other operating income	37	34	31	66	**168**
Group operating profit	898	913	1,012	993	**3,816**
Group's share of operating loss of associates and joint ventures	(78)	(56)	(101)	(107)	**(342)**
Total operating profit	820	857	911	886	**3,474**
Profit on sale of fixed asset investments and group undertakings *(a)*	–	1,107	–	–	**1,107**
Net interest payable	(97)	(86)	(53)	(50)	**(286)**
Profit on ordinary activities before taxation	723	1,878	858	836	**4,295**
Tax on profit on ordinary activities	(224)	(544)	(266)	(259)	**(1,293)**
Profit on ordinary activities after taxation	499	1,334	592	577	**3,002**
Minority interests	(13)	–	3	(9)	**(19)**
Profit for the financial period	486	1,334	595	568	**2,983**
Basic earnings per share	7.6p	20.7p	9.2p	8.8p	**46.3p**
Diluted earnings per share	7.4p	20.2p	9.0p	8.6p	**45.3p**
Profit before goodwill amortisation, exceptional items and taxation	724	807	872	871	**3,274**
Basic earnings per share before goodwill amortisation and exceptional items	7.6p	8.8p	9.4p	9.2p	**35.0p**
Diluted earnings per share before goodwill amortisation and exceptional items	7.4p	8.6p	9.2p	9.0p	**34.2p**
(a) Including gain on MCI shares sold	–	1,133	–	–	**1,133**

New divisional structure to be implemented in the year ending 31 March 2001

Financial information

The table below shows for illustrative purposes a proforma of the results of BT's new business organisation, to be implemented during the year ending 31 March 2001, for the years ended 31 March 2000 and 1999. It is a restatement of the actual results for those years showing the businesses had they traded throughout that year. The information includes allocations and apportionments of turnover and costs.

	Total turnover		Total operating profit (loss) before goodwill amortisation and exceptional items	
(Unaudited)	**2000 £ billion**	1999 £ billion	**2000 £ billion**	1999 £ billion
UK wholesale and retail	**12.6**	11.7	**3.4**	3.4
Ignite	**3.2**	2.1	**(0.5)**	(0.2)
BTopenworld *(a)*	**0.1**	0.0	**(0.3)**	(0.1)
BT Wireless	**4.5**	2.7	**0.2**	0.1
Yell	**0.6**	0.5	**0.2**	0.2
Concert *(b)*	**1.9**	1.9	**0.3**	0.3
Eliminations and other *(c)*	**(1.0)**	(0.7)	**0.2**	(0.1)
Total	**21.9**	18.2	**3.5**	3.6

(a) Total turnover for 1999 – approximately £50 million.

(b) Comprises the results up to 5 January 2000 of those elements of BT's business which were transferred to the Concert global venture, and, for the period from 5 January 2000, BT's proportionate interest in the global venture's results.

(c) Elimination of turnover between businesses which is included in total turnover of the originating business. Other includes group redundancy costs.

Financial statistics years ended 31 March

	1996	1997	1998	1999	**2000**
Financial ratios					
Basic earnings per share – pence	31.6	32.8	26.6	46.3	**31.7**
Growth in dividends per share % *(a)*	5.6	6.1	6.4	7.4	**7.4**
Return on capital employed % *(b)*	18.4	19.1	19.5	19.2	**18.2**
Gearing – net debt to equity % *(c)*	7.4	1.6	36.1	6.3	**53.4**
Interest cover *(d)*	16.9	19.7	11.2	12.2	**8.8**
Dividend cover *(a) (e)*	1.7	1.7	1.8	1.7	**1.4**

(a) 1997 and 1998 figures exclude the effects of the special dividend of 35p per share paid in September 1997.

(b) The ratio is based on profit before tax, goodwill amortisation and interest on long-term borrowings, to average capital employed. Capital employed is represented by total assets, excluding goodwill, less current liabilities, excluding corporate taxes and dividends payable, and provisions other than those for deferred taxation. Year-end figures are used in the computation of the average, except in the case of short-term investments and borrowings where average daily balances are used in their place.

(c) The ratio is based on borrowings net of cash and short-term investments to capital and reserves and minority interests.

(d) The number of times net interest payable is covered by operating profit before goodwill amortisation. In 1997, net interest excludes the premium paid on the repurchase of bonds.

(e) The number of times dividends are covered by earnings. The figure for 1998 excludes the effect of the windfall tax charge and the figure for 1999 excludes the gain on sale of the MCI shares.

	1996 £m	1997 £m	1998 £m	1999 £m	**2000 £m**
Expenditure on research and development					
Total expenditure	282	291	307	268	**345**

	1996 £m	1997 £m	1998 £m	1999 £m	**2000 £m**
Expenditure on tangible fixed assets					
Plant and equipment					
Transmission equipment	1,114	1,131	1,219	1,416	**1,563**
Exchange equipment	566	445	512	411	**413**
Other network equipment	491	503	502	558	**703**
Computers and office equipment	333	350	372	464	**502**
Motor vehicles and other	195	175	230	230	**257**
Land and buildings	87	143	211	205	**229**
Increase (decrease) in engineering stores	(15)	(28)	(16)	(15)	**13**
Total expenditure on tangible fixed assets	2,771	2,719	3,030	3,269	**3,680**
Decrease (increase) in creditors	(224)	104	(10)	(49)	**(112)**
Cash outflow on purchase of tangible fixed assets	2,547	2,823	3,020	3,220	**3,568**

Financial statistics have been restated where necessary to provide consistency with the presentation of the 2000 financial year figures.

Operational statistics and regulatory information years ended 31 March

	1996	1997	1998	1999	**2000**
Call growth					
% growth in UK fixed-network call volumes over the previous year:	7	6	6	7	**7**

Growth is estimated by reference to turnover growth attributable to calls, adjusted to eliminate the effect of price changes.

	1996	1997	1998	1999	**2000**
UK exchange line connections					
Business ('000)	6,798	7,160	7,521	7,982	**8,450**
% growth over previous year	5.2	5.3	5.0	6.1	**5.9**
Residential ('000)	20,500	20,393	20,130	20,067	**20,035**
% reduction over previous year	(0.5)	(0.5)	(1.3)	(0.3)	**(0.2)**
Total exchange line connections ('000)	27,298	27,553	27,651	28,049	**28,485**
% growth over previous year	0.8	0.9	0.4	1.4	**1.6**

	1996	1997	1998	1999	**2000**
BT Cellnet (Cellular telephones in the UK)					
Contract ('000)	353	1,125	2,303	3,254	**3,658**
Prepaid ('000)	–	–	–	909	**3,591**
Total digital GSM ('000)	353	1,125	2,303	4,163	**7,249**
Analogue ('000)	2,036	1,573	774	359	**155**
Total ('000)	2,389	2,698	3,077	4,522	**7,404**
% growth over previous year	37.8	12.9	14.0	47.0	**63.7**

	1996	1997	1998	1999	**2000**
UK optical fibre					
Fibre – kilometres in the network ('000)	3,043	3,302	3,591	4,058	**4,555**

	1996	1997	1998	1999	**2000**
People employed					
Total employees ('000)	130.7	127.5	124.7	124.7	**136.8**

Classified directory business in the UK

The company is providing the following information with respect to its classified directory business in the UK in accordance with undertakings made with the Office of Fair Trading in 1996. For the year ended 31 March 2000, the classified directory business of BT made an operating profit of £205 million (1999 – £190 million) on turnover of £480 million (1999 – £439 million) and, at 31 March 2000, it employed net assets of £167 million (1999 – £151 million). Since the classified directory business is integrated with the company's wider operations, this financial information incorporates the effects of certain apportionments and allocations of expenditures and assets.

BT is required to submit annual audited accounts in respect of the classified directory business to the Director of the Office of Fair Trading within nine months of the company's financial year end. Copies of these accounts, when available, may be obtained free of charge from *Yellow Pages* at *Queens Walk, Reading RG1 7PT*.

Additional information for shareholders

Cautionary statement regarding forward-looking statements

Certain statements in this annual report are forward-looking and are made in reliance on the safe harbour provisions of the US Private Securities Litigation Reform Act of 1995. These statements include, without limitation, those concerning: BT's vision and its ability to fulfil such vision; the benefits and advantages of the restructuring; growth of, and opportunities available in, the communications industry and the positioning of BT to take advantage of such opportunities; expectations regarding competition, prices and growth; expectations regarding the convergence of technologies; date for commencement of operations of BT's new business units; network development and expansion plans; plans for the launch of new products and services; expectations regarding participation in bids for 3G licences outside the UK; the impact of regulatory initiatives on operations; regulation of the UK wholesale and retail businesses; the possible or assumed future results of operations of BT and/or its associates and joint ventures; expectations regarding the factors continuing to affect group operating profit and total operating profit; expectations regarding BT's net debt; expectations regarding the listing of some of BT's businesses; capital expenditure and investment plans; adequacy of capital; financing plans; and those preceded by, followed by, or that include the words ''believes'', ''expects'', ''anticipates'' or similar expressions.

Although BT believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from these expressed or implied by these forward-looking statements.

Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: material adverse changes in economic conditions in the markets served by BT and its new businesses; future regulatory actions and conditions in BT's operating areas, including competition from others in the UK and other international communications markets; selection by BT and its new businesses of the appropriate trading and marketing models for their products and services; success in applications for 3G licences and the costs associated with building 3G networks; technological innovations, including the cost of developing new products; the need to increase expenditure improving the quality of service; developments in the convergence of technologies; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs; the timing of entry and profitability of BT and its new businesses in certain communications markets; significant changes in market shares for BT and its new businesses' principal products and services; and fluctuations in foreign currency exchange rates and interest rates.

Background

The company was incorporated under the laws of England and Wales on 1 April 1984 as a public limited company wholly owned by Her Majesty's Government of the United Kingdom. In a series of three offers to the public, HM Government reduced its holding from 100% in December 1984 to less than 1% in July 1993. HM Government now owns less than 0.2% of the outstanding ordinary shares.

Listings

The principal listing of BT's ordinary shares is on the London Stock Exchange. The shares are also listed on the Tokyo Stock Exchange. American Depositary Shares (ADSs), each representing 10 ordinary shares, have been issued by Morgan Guaranty Trust Company of New York, as Depositary for the American Depositary Receipts (ADRs) evidencing the ADSs, and are listed on the New York Stock Exchange. ADSs also trade, but are not listed, on the London Stock Exchange. Trading on the New York Stock Exchange is under the symbol "BTY". BT shares are traded on the Tokyo Stock Exchange under the Code "9484".

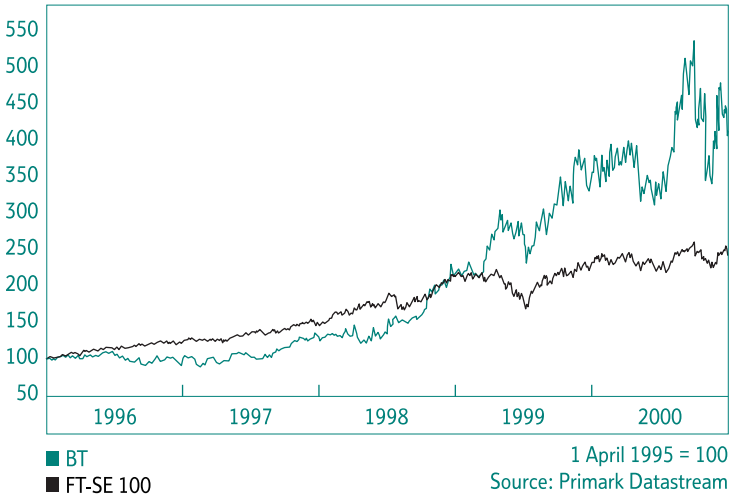
Share and ADS prices

	Pence per ordinary share		US$ per ADS	
	High pence	Low pence	High $	Low $
Year ended 31 March 1999				
1 April – 30 June 1998	757	630	125 7/16	102 1/4
1 July – 30 September 1998	902	745 1/2	148 3/4	124 1/4
1 October – 31 December 1998	908	676	154 1/4	116 3/8
1 January – 31 March 1999	1,118 1/2	899 1/2	179 15/16	148 1/4
Year ended 31 March 2000				
1 April – 30 June 1999	1,137	970	181 15/16	159
1 July – 30 September 1999	1,151	889	184 5/8	147 5/8
1 October – 31 December 1999	1,513	906 1/2	244 1/2	153
1 January – 31 March 2000	1,423	964	241 1/16	152 1/2
Year ending 31 March 2001				
1 April – 16 May 2000	1,172	922	186	141 13/16

The prices are the highest and lowest closing middle market prices for BT ordinary shares, as derived from the Daily Official List of the London Stock Exchange and the highest and lowest sales prices of ADSs, as reported on the New York Stock Exchange composite tape.

Fluctuations in the exchange rate between the pound sterling and the US dollar affect the dollar equivalent of the pound sterling price of the company's ordinary shares on the London Stock Exchange and, as a result, are likely to affect the market price of the ADSs on the New York Stock Exchange.

Relative TSR performance over the five financial years to 31 March 2000



Total Shareholder Return (TSR) is the measure of the returns that a company has provided for its shareholders, and is therefore a good indicator of a company's overall performance. The TSR indices on the above graph are the product of share price movement plus gross dividends reinvested in the shares to July 1997 and net dividends thereafter.

Additional information for shareholders

Analysis of shareholdings

Size of shareholding at 31 March 2000	Number of shareholders	Percentage of total	Ordinary shares of 25p each: Number of shares held (millions)	Ordinary shares of 25p each: Percentage of total
1 – 399	816,165	45.0	173	2.7
400 – 799	524,396	28.9	283	4.3
800 – 1,599	317,874	17.6	347	5.3
1,600 – 9,999	147,638	8.2	395	6.1
10,000 – 99,999	3,742	0.2	96	1.5
100,000 – 999,999	1,378	0.1	482	7.4
1,000,000 – 4,999,999	377	–	839	12.9
5,000,000 and above *(a),(b),(c)*	173	–	3,892	59.8
Total	**1,811,743**	**100.0**	**6,507**	**100.0***(d)*

(a) 19 million shares were held in trust by Ilford Trustees (Jersey) Limited for allocation to employees under the employee share schemes.

(b) Under the BT Employee Share Ownership Scheme 29 million shares were held in trust on behalf of 124,673 participants who were beneficially entitled to the shares. 22 million shares were held in the BT EasyShare corporate nominee service on behalf of 81,024 beneficial owners.

(c) Approximately 90 million shares were represented by ADSs and a further 10 million shares were held by a nominee of the Tokyo Stock Exchange on behalf of investors. Analysis by size of holding is not available for these holdings.

(d) 17.7% of the shares were in 1,751,341 individual holdings, of which 156,624 were joint holdings, and 82.3% of the shares were in 60,402 institutional holdings.

So far as the company is aware, no person is the beneficial owner of more than 10% of the company's ordinary shares, nor is the company directly or indirectly owned or controlled by another corporation or by HM Government or any other foreign government. There are no arrangements known to the company the operation of which may at a subsequent date result in a change in control of the company.

At 16 May 2000, there were 6,507,406,018 ordinary shares outstanding. At the same date, approximately 9.2 million ADSs (equivalent to 92 million ordinary shares, or approximately 1.4% of the total number of ordinary shares outstanding on that date) were outstanding and were held by 2,016 record holders of ADRs.

CREST: London Stock Exchange settlement system

The company's ordinary shares are settled in CREST, the computerised system for settling sales and purchases of shares. CREST is a voluntary system which enables shareholders, if they wish, to hold and transfer their shareholdings electronically rather than by paper. Shareholders who wish to retain their certificates are able to do so.

Individual savings accounts (ISAs)

Information about investing in BT shares through an ISA may be obtained from Halifax Share Dealing Limited, Westbank, Water Lane, Leeds LS11 5TL (telephone 0870 600 9966). ISAs are also offered by other organisations.

Dividends

The Board expects to recommend in respect of each financial year an interim and a final dividend, which will normally be payable in February and September, respectively. The proposed 2000 final dividend will be paid on 18 September to shareholders on the register on 18 August 2000.

The dividends paid or payable on BT shares and ADSs for the last five years are shown in the following table. The dividends on the ordinary shares exclude the associated tax credit. The dividends on the ADSs paid before 5 April 1999 include the associated UK tax credit available to certain beneficial owners who are resident in the United States or Canada for tax purposes, but before deduction of UK withholding taxes. The amounts shown are not those that were actually paid to holders of ADSs. For the tax treatment of dividends, which changed for dividends paid on or after 6 April 1999, see *Taxation of dividends* below. Dividends have been translated from pounds sterling into US dollars using exchange rates prevailing on the date the ordinary dividends were paid.

	Per ordinary share			Per ADS			Per ADS		
Years ended 31 March	Interim pence	Final pence	Total pence	Interim £	Final £	Total £	Interim US$	Final US$	Total US$
1996	7.45	11.25	18.70	0.931	1.406	2.337	1.422	2.181	3.603
1997*(a)*	7.90	11.95	19.85	0.987	1.494	2.481	1.582	2.391	3.973
1998*(b)*	7.55	11.45	19.00	0.944	1.431	2.375	1.540	2.400	3.940
1999*(b)*	8.10	12.30	20.40	1.012	1.366	2.378	1.644	2.202	3.846
2000*(b)*	8.70	13.20	21.90	0.966	1.320	2.190	1.529	*(c)*	*(c)*

(a) In addition, a special dividend of 35p per share, excluding the associated tax credit, or £4.375 (US$7.002) per ADS, including the UK associated tax credit, was paid at the same time as the final dividend for the 1997 financial year.

(b) The dividends for the 1998, 1999 and 2000 financial years include an adjustment to take account of the effect of the 1997 special dividend.

(c) Qualifying holders of ADSs on record as of 18 August 2000 are entitled to receive the final dividend which will be paid on 25 September 2000, subject to approval at the annual general meeting. The US dollar amount of the final dividend of £1.32 per ADS to be paid to holders of ADSs will be based on the exchange rate in effect on 18 September 2000, the date of payment to holders of ordinary shares. This dividend will be paid under the arrangements described in *Taxation of dividends* below.

The level of dividends will continue to be influenced by such factors as the effects of competition and regulation in the UK, together with investment needs and opportunities in the UK and in other countries. Past relationships between the interim and final dividends are not necessarily indicative of the future.

As dividends paid by the company are in pounds sterling, exchange rate fluctuations will affect the US dollar amounts received by holders of ADSs on conversion by the Depositary of such cash dividends.

The expected dividend payment dates in 2001 are:

2001 interim dividend payable	February 2001
2001 final dividend payable	September 2001

Dividend mandate

Any shareholder wishing dividends to be paid directly into a bank or building society account should contact the Registrar for a dividend mandate form. Dividends paid in this way will be paid through the Bankers Automated Clearing System (BACS). Alternatively, a form may be downloaded from the internet at **www.bt.com/shares**.

Additional information for shareholders

Dividend investment plan

The dividend investment plan replaced the share dividend plan for shareholders following the 1999 interim dividend. Under the dividend investment plan, cash from participants' dividends is used to buy further BT shares in the market. The 1999 interim dividend was paid on 15 February 1999 and shares were allotted at a price of 950.20p per share.

Shareholders could also elect to receive additional shares in lieu of a cash dividend for the following two dividends:

	Date paid	Price per share pence
1999 final	20 September 1999	970.1
2000 interim	14 February 2000	991.5

The last date for lodging elections for the plan in respect of the proposed 2000 final dividend is 18 August 2000.

Global Invest Direct

Details of the Morgan Guaranty Trust Company's direct purchase plan, Global Invest Direct, including reinvestment of dividends, are available from Morgan Guaranty Trust Company of New York on 1 800 749 1687 (toll free in the United States) or +1 781 575 4328 (from outside the United States), or on written request to the Depositary.

Results announcements

Expected announcements of results:

1st quarter	27 July 2000
2nd quarter and half year	9 November 2000
3rd quarter and nine months	February 2001
4th quarter and full year	May 2001
2001 annual report and accounts published	June 2001

ShareGift

The Orr Mackintosh Foundation operates a charity share donation scheme for shareholders with small parcels of shares whose value makes it uneconomic to sell them. Details of the scheme are available on the ShareGift internet site **www.sharegift.org**, or can be obtained from the BT Shareholder Helpline.

Exchange rates

BT publishes its consolidated financial statements expressed in pounds sterling. The following table details certain information concerning the exchange rates between pounds sterling and US dollars based on the noon buying rate in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate).

	Years ended 31 March				
	1996	1997	1998	1999	**2000**
Period end	1.53	1.64	1.68	1.61	**1.59**
Average *(a)*	1.52	1.60	1.65	1.65	**1.61**
High	1.56	1.71	1.70	1.72	**1.68**
Low	1.50	1.49	1.58	1.60	**1.55**

(a) The average of the Noon Buying Rates in effect on the last day of each month during the relevant period.

On 16 May 2000, the most recent practicable date for this annual report, the Noon Buying Rate was US$1.50 to £1.00.

Taxation (US Holders)

This is a summary only of the principal US federal income tax and UK tax consequences to beneficial owners of ADSs who either are resident in the United States or hold ordinary shares or ADSs as assets effectively connected with a US trade or business (US Holders). It is not a complete analysis or listing of all potential tax consequences of the purchase, ownership and disposal of ordinary shares or ADSs.

Investors are advised to consult their tax advisers with respect to the tax consequences of their holdings, including the consequences under applicable state and local laws. The statements of UK and US tax laws and practices set out below are based on the laws in force and as interpreted by the relevant taxation authorities as of the date of this annual report. The statements are subject to changes occurring after that date in UK or US law or practice, in the interpretation thereof by the relevant taxation authorities, or in any double taxation convention between the United States and the UK.

In particular, this summary is based on the current convention between the United States and the UK for the avoidance of double taxation with respect to taxes on income and capital gains (the Treaty) and the US Internal Revenue Code of 1986, as amended. The Treaty is currently under renegotiation.

Taxation of dividends

For dividends paid on or before 5 April 1999, US Holders were generally entitled to receive the cash dividend plus a Treaty payment from the Inland Revenue of one quarter of the dividend, subject to a UK withholding tax of 15% of the aggregate amount paid. As an example for illustration purposes only, a US Holder who was entitled to a dividend of £80 was also entitled to a Treaty payment of £20, reduced by the withholding tax of 15% on the gross amount of £100, i.e. £15, leaving a net cash payment of £85. The full dividend plus the full Treaty payment including the UK tax withheld was taxable income for US purposes, and the US tax withheld generally was available as a US credit or deduction.

For dividends paid on or after 6 April 1999, the Treaty payment reduces to one ninth of the dividend (i.e. one tenth of the gross payment). As a result of the UK withholding tax (which cannot exceed the amount of the hypothetical Treaty payment), US Holders will no longer receive any Treaty payment. In the above example, the cash dividend would be £80, and the hypothetical Treaty payment would be £8.89 (one ninth of £80). However, since the UK withholding tax (15% of £88.89), would exceed the amount of the hypothetical Treaty payment, no Treaty payment will be made and the US Holder will receive only the cash dividend (here, £80). A US holder will be taxable in the US on the full dividend and full hypothetical Treaty payment (£88.89), and will be treated as having paid a foreign tax equal to the hypothetical Treaty payment (here, £8.89). The foreign tax deemed paid generally will be available as a US credit or deduction.

For US federal income tax purposes, a distribution will be treated as ordinary dividend income to the extent paid out of current or accumulated earnings and profits, and thereafter as return of capital. Dividends paid by the company will not be eligible for the US dividends received deduction. The amount of any dividend paid in pounds sterling will equal its US dollar value based on the spot rate in effect on the date the dividend is received. Additional gain or loss resulting from a subsequent conversion or other disposition of the pounds sterling will generally be ordinary income or loss.

Taxation of capital gains

Unless a US resident carries on a trade through a branch or agency in the UK, and the disposal of ordinary shares and/or ADSs is related to the activities of that trade, UK capital gains tax is not charged on US residents who dispose of ordinary shares and/or ADSs.

For US federal income tax purposes, a US Holder will recognise a gain or loss on the sale or other disposition of shares or ADSs. Such gain or loss will be a capital gain or loss if the shares or ADSs disposed of are held as capital assets. Capital gains of an individual US Holder are subject to US tax at preferential rates if specified holdings periods are met.

US information reporting and back-up withholding

Dividends paid on and proceeds received from the sale or disposition of ordinary shares or ADSs may be subject to information reporting to the IRS and back-up withholding at a 31% rate. Back-up withholding will not apply, however, to a holder who provides a correct taxpayer identification number or certificate of foreign status and makes any other required certification or who is otherwise exempt.

UK stamp duty

A transfer for value of an ordinary share will generally be subject to UK stamp duty or to UK stamp duty reserve tax. No UK stamp duty will be payable on the transfer of an ADS, provided that the separate instrument of transfer is not executed in, and always remains outside, the UK.

Inheritance and gift taxes

US-domiciled holders of ordinary shares and ADSs generally will not be subject to UK inheritance tax on a gift of ordinary shares and/or ADSs if the gift would be subject to US federal gift tax. Similarly, ordinary shares and/or ADSs passing on the death of a US-domiciled shareholder generally will not be subject to UK inheritance tax if the estate would be subject to US estate tax.

Exchange controls and other limitations affecting security holders

There are currently no government laws, decrees or regulations in the United Kingdom that restrict the export or import of capital, including, but not limited to, UK foreign exchange control restrictions, or that affect the remittances of dividends or other payments to non-resident holders of the company's ordinary shares, except as otherwise described in *Taxation (US Holders)* above and except in respect of the government of, or any resident of, Iraq or any person treated as so resident or in respect of the governments of the Federal Republic of Yugoslavia, and of Serbia. There are no limitations under the laws of the United Kingdom restricting the right of non-residents to hold or to vote shares in the company.

Publications

BT produces a series of documents reporting on the company's financial, economic, social and environmental performance. These publications are available to shareholders on request.

Document	Publication date
Annual Review including summary financial statement	June
Annual Report and Form 20-F	June
Report for Shareholders	February and September
Quarterly results releases	February, May, July and November
Current Cost Financial Statements for the Businesses and Activities and Statement of Standard Services (as required by Oftel)	September
Group Current Cost Financial Statements	September
Environmental Performance Report *(a)*	June
Social Report *(An Issue of responsibility) (a)*	June 1999
Sustainability Report *(a)*	October 1999
Statement of Business Practice	*(b)*
Quality of Service Report	May and November

(a) These three reports will be combined into one document in 2001.
(b) First issued in June 1999.

Most documents may be accessed on the internet at **www.bt.com/shares**.

For printed copies, contact the BT Shareholder Helpline on ***Free****fone 0808* ***100 4141*** or, alternatively, contact **The Registrar** in the UK, **BT North America Inc.** in the United States or **The Toyo Trust & Banking Co. Limited** in Japan at the addresses on page 124.

Additional information for shareholders

The Registrar
Lloyds TSB Registrars (450)
The Causeway
Worthing, West Sussex
BN99 6DA
United Kingdom

BT Shareholder Helpline
Tel ***Free**fone 0808* ***100 4141***
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10-11 Higashisuna 7-Chome
Koto-Ku, Tokyo 137-8081
(Corporate Agency Department)

Tel (03) 5683 5111

Osaka Office
6-3 Fushimi-machi 3-Chome
Chuo-Ku, Osaka 541-8502
(Corporate Agency Department)

Tel (06) 6222 3111

Shareholder enquiries
Lloyds TSB Registrars maintain BT's share register and the separate BT EasyShare Service and BT Employee Share Ownership Scheme registers. They also provide a BT Shareholder Helpline service.

Shareholders should contact the Registrar (details above) if they have any enquiries about their shareholding.

General enquiries
British Telecommunications plc
BT Centre
81 Newgate Street
London EC1A 7AJ
United Kingdom

Tel (020) 7356 5000
Fax (020) 7356 5520

From overseas:
Tel +44 20 7356 5000
Fax +44 20 7356 5520

A full list of BT contacts, and an electronic feedback facility, is available at **www.bt.com/talk**

Glossary of terms and US equivalents

Term used in UK annual report	US equivalent or definition
Accounts	Financial statements
Advance corporation tax (ACT)	No direct US equivalent. Tax payable on cash dividends treated as advance payments on the company's UK income tax due
Associates	Equity investees
Capital allowances	Tax depreciation
Capital redemption reserve	Other additional capital
Creditors	Accounts payable and accrued liabilities
Creditors: amounts falling due within one year	Current liabilities
Creditors: amounts falling due after more than one year	Long-term liabilities
Debtors: amounts falling due after more than one year	Other non-current assets
Employee share schemes	Employee stock benefit plans
Employment costs	Payroll costs
Finance lease	Capital lease
Financial year	Fiscal year
Fixed asset investments	Non-current investments
Freehold	Ownership with absolute rights in perpetuity
Inland calls	Local and long-distance calls
Interests in associates and joint ventures	Securities of equity investees
Loans to associates and joint ventures	Indebtedness of equity investees not current
Net asset value	Book value
Operating profit	Net operating income
Other debtors	Other current assets
Own work capitalised	Costs of group's employees engaged in the construction of plant and equipment for internal use
Profit	Income
Profit and loss account (statement)	Income statement
Profit and loss account (under "capital and reserves" in balance sheet)	Retained earnings
Profit for the financial year	Net income
Profit on sale of fixed assets	Gain on disposal of non-current assets
Provision for doubtful debts	Allowance for bad and doubtful accounts receivable
Provisions	Long-term liabilities other than debt and specific accounts payable
Recognised gains and losses (statement)	Comprehensive income
Redundancy charges	Early release scheme expenses
Reserves	Shareholders' equity other than paid-up capital
Share premium account	Additional paid-in capital or paid-in surplus (not distributable)
Shareholders' funds	Shareholders' equity
Stocks	Inventories
Tangible fixed assets	Property, plant and equipment
Trade debtors	Accounts receivable (net)
Turnover	Revenues

Cross reference to Form 20-F

The information in this document that is referred to in the following table shall be deemed to be filed with the Securities and Exchange Commission for all purposes.

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Offices worldwide

British Telecommunications plc
Registered office: 81 Newgate Street, London EC1A 7AJ
Registered in England No. 1800000

Accredited with the Investor in People award

Designed by Pauffley
Printed in England by Pindar plc on paper awarded the Nordic White Swan label, an internationally recognised environmental standard.