

**BT** Group

Annual Review  
and summary  
financial statement  
2002





BT Group plc was formed when the mmO2 business (comprising what had been our mobile activities in the UK, the Netherlands, Germany and the Republic of Ireland) was demerged from British Telecommunications plc on 19 November 2001. Shareholders received one share in mmO2 plc and one share in BT Group plc for each share they previously held in British Telecommunications plc. Trading in BT Group plc and mmO2 plc shares began on 19 November 2001.

In this Annual Review, references to "BT Group", "BT", "the group", "the company", "we" or "our" are to BT Group plc (which includes the continuing activities of British Telecommunications plc) and its subsidiaries, or any of them as the context may require.

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Everything begins and ends with our more than 21 million customers. Serving them is both a privilege and a fantastic opportunity. Customer satisfaction is our number one priority . . . Every one of our people – our field engineers, our call centre advisers, our operators, our network specialists, members of our professional support functions, our research scientists, our software engineers, our account managers – needs to be absolutely focused on those customers.



Sir Christopher Bland, Chairman, reports on the successful delivery of the action plan outlined a year ago and the company's return to the dividend list...

The last year has been a significant one for BT Group.

Our operating results were satisfactory and we are pleased to propose a final dividend of 2.0 pence per share.

In May 2001, your Board developed an action plan to reduce debt, manage costs and enhance BT's ability to serve its customers even more effectively.

In the year since then, we have delivered on that plan.

In a turbulent market characterised by rising debt levels – a consequence in large part of the high cost of acquiring 3G mobile licences—and cooling sentiment towards the telecommunications sector, we have taken the hard decisions early and are now in a position of relative strength.

Debt was reduced from £27.9 billion as at 31 March 2001, to £13.7 billion as at 31 March 2002.

■ A significant part of this reduction was achieved through the successful completion of the largest rights issue in UK corporate history. Some 1.98 billion new shares were issued, raising £5.9 billion.

- We demerged mmO2, which comprises what used to be BT's wholly-owned mobile assets in the UK and continental Europe.
- We unwound Concert, our international joint venture with AT&T, which had come under considerable pressure from the downturn in the global communications sector. Our destiny in this market is once again under our direct control.
- We disposed of Yell, our international directories and e-commerce business. We sold our interests in Japan and Spain at a significant profit.
- We achieved the sale and leaseback of a large part of our UK property portfolio.
- And we made significant changes to your Board of directors, through a series of executive and non-executive appointments, on which shareholders will have the opportunity to vote at the AGM.

I would like to pay tribute to Sir Peter Bonfield, who left the company at the end of January this year. In Peter's six years as Chief Executive, his energy and drive were of enormous value and he played a key role in the restructuring of the company. We wish him well for the future.

The appointment of Ben Verwaayen, former vice chairman of the management board of Lucent Technologies, as your new Chief Executive marks the next stage in your company's evolution. Ben has significant telecommunications experience and a proven track record in driving culture change.

In November 2001, we strengthened the Board with the appointment of Pierre Danon, Chief Executive of BT Retail, Paul

Reynolds, Chief Executive of BT Wholesale and Andy Green, Chief Executive of BT Ignite.

The appointment of Ian Livingston, former group finance director of Dixons Group, as Group Finance Director in April 2002 completes the top team.

I would like to thank the non-executive directors, Lord Marshall, Iain Anderson, Helen Alexander, Neville Isdell, June de Moller and Sir John Weston, who retired during the year and welcome Baroness Jay, John Nelson and Carl Symon to the Board.

I would also like to thank Philip Hampton and Colin Green, both of whom left the company recently, for the notable contributions they made as Group Finance Director and Secretary respectively.

As we progress, and while we continue to concentrate on managing the debt and further reducing costs, we are also embarked on the pursuit of profitable growth and customer service excellence.

After a year of relative introspection, we need to show the self-confidence that our assets and strategy justify. We will be entirely focused on finding profitable ways to meet what our customers need, particularly in the "new wave" services arena, in order to enhance shareholder value.

The last couple of years have been tough for our shareholders. I would like to thank you all for your continued support.

They've also been tough for BT employees, who have consistently risen to the challenge.

Looking ahead, I see every reason for optimism.

### Key events

#### June 2001

UK's largest-ever rights issue closes  
Sale of Yell for approximately £2 billion  
Sale of interest in Airtel in Spain for £1.1 billion

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#### June and July 2001

Sale of interests in Japan Telecom and J-Phone for £3.7 billion

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#### October 2001

Court Meeting and Extraordinary General Meeting win approval for creation of a holding company and demerger of mmO2

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#### November 2001

Demerger of mmO2

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#### February 2002

Ben Verwaayen takes over as Chief Executive

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#### April 2002

Formal unwinding of Concert joint venture with AT&T



**Sir Christopher Bland**  
Chairman  
21 May 2002



Ben Verwaayen, Chief Executive, says that outstanding customer service, profitable growth and the development of new broadband services are key to the creation of shareholder value . . .

What customers can expect from BT is a high standard of service delivery, innovation and creativity, where it counts; and reliability where it matters most.

It's as simple and as rigorous as that.

There are three principal parts to BT's strategy.

The first is a relentless and passionate concern for our customers, and a scrupulous focus on their requirements, now and in the future.

BT's core business is supplying more than 21 million customers with a range of communications services that meet their needs at home, at work, and anywhere in between.

We are a service company and proud of it. We sell a customer experience.

Delighted customers are our reason for existence, because delighted customers are key to the creation of shareholder value.



Ben Verwaayen with Alison Ritchie,  
Chief Executive of BT Openworld.

Get that customer experience right, drive up customer satisfaction levels, and everything else follows. Get it right, and we can stimulate growth, generate cash, reduce customer churn, promote innovation and deliver shareholder value.

We are determined that everyone who works for BT – and I mean everyone – will be committed to delighting his or her customers.

Nothing is more important than that.

The second part of our strategy is the pursuit of growth.

The restructuring is done; stability has been achieved.

Now it's time for your company to start to grow again. And by that, we mean profitable growth.

We have no interest in growth for growth's sake, just as we have no interest in cost cutting simply for its own sake.

And we can achieve profitable growth in all the sectors in which we operate. We have set ourselves a number of rigorous financial targets relating to all our ongoing activities in the retail, wholesale and solutions markets.

We know that we will be judged by our ability to deliver. We're happy with that.

And the third and integrally-related strategic imperative is the delivery of Broadband Britain.

Broadband is a critical growth opportunity and BT is already playing a major part. We have substantially reduced both the wholesale and retail costs of broadband and we have put significant marketing effort behind the services we offer.

Broadband really can transform our customers' lives and businesses, and it provides an opportunity for us to build new and mutually beneficial relationships with our customers.

Finally, after a difficult time for the company, we now need to understand our strengths better and play to those strengths. We have every reason for self-confidence, and confident, motivated, skilled employees, focused on their customers, are at the heart of what BT has to offer.

We want to be the best communications services and solutions company for everyone in the UK and business customers in Europe. We deliver global connectivity and solutions where that meets customers' needs.

Post-privatisation, BT was the benchmark company in the telecommunications industry, not just in the UK but in Europe and globally.

The bad news is that we've currently lost pole position.

But the good news is that there's a vacancy. No single company in this industry can confidently lay claim to that position at the moment.

That's the opportunity and challenge for us.

We can become the benchmark once again. So, that's what we're aiming to do.

**Ben Verwaayen**  
Chief Executive  
21 May 2002

# Our customers



It couldn't be simpler. Everything begins and ends with our more than 21 million customers. Serving them is both a privilege and a fantastic opportunity.

Customer satisfaction is our number one priority, because that's the right way to do business and because it's the key to profitable growth.

We have three kinds of customers – residential, business (from small and medium enterprises to major government departments and multinationals) and wholesale.

And our core business is to delight all of them.

We are passionate about providing them with an unparalleled customer experience and excellent service.

Whether they want basic telephony or complex communications solutions, voice calls or internet connections, fixed or mobile connections, national or international communications, we aim to provide what they want at the right price.

And we can only do this if we understand their priorities and their views of the world.

Which means listening to them.

Although we have run one of the largest customer research programmes in the UK for a number of years, at the end of March we kicked off a census of 19 million residential customers.

The first four million questionnaires went out in March and the survey is also available online.

Customers are asked how satisfied they are with our customer service, in what ways they would like us to change, and their expectations of the future, particularly of the internet and broadband.

And in May 2001, we launched a monthly tracking survey of our major business customers. In the first 11 months of the survey, BT outperformed the competition nine times in relation to customer satisfaction.

Increasingly, in the residential market, we are focused on offering integrated communications packages that align with people's lifestyles.

The innovative BT Together pricing package, for example, which offers reduced rate calls and other benefits for a fixed monthly fee, was

enhanced during the year to include the option of unlimited UK off-peak calls. And an option including unmetered off-peak internet calls was also introduced.

As at 31 March 2002, approximately 71% of all residential customer call minutes were made by subscribers to fixed-fee packages – a constant reminder of the value for money that we offer.

We continue to develop channels that make it easier for customers to deal with us. For example, we are creating a number of multi-functional contact centres; [www.bt.com](http://www.bt.com), our e-commerce channel, enables customers to access information and services, and check or pay their bills online;<sup>1</sup> and the new, clearer bill makes it much easier for customers to see what they are spending and what they are getting for their money.

In the developing wholesale market, we sell to other licensed operators and service providers who are looking for customised communications solutions – from private circuits to international functionality, from e-business to network facilities management – that they can sell to their customers, and that will give them a competitive edge in *their* markets.

Quite literally, their success is our success.

They've stressed the importance of ease of communication with us and, in response, for example, we've

developed the Broadband Service Provider gateway, which enables service providers to link directly to our systems. Now they can enter or check the progress of orders online, simplifying and speeding up the entire process.

In the major business market too, we're committed to working in partnership with our customers, to help them realise the strategic value of communications and get the most from the services we provide.

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**footnote**

<sup>1</sup>[www.bt.com](http://www.bt.com) is one of the largest sites of its kind in the UK, with 2.5 million registered users at 31 March 2002. In 2002, orders worth more than £71 million were made or initiated through the site.

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# Our people

They say you can tell a lot about a company by the people that it employs and BT people are the heart and soul of the BT proposition.

Every one of our people – including our field engineers, our call centre advisers, our operators, our network specialists, members of our professional support functions, our research scientists, our software engineers, our account managers – needs to be absolutely focused on our more than 21 million customers.

Their customers are the most important people in their working lives – more important even than the boss. Customers expect and deserve nothing less.

Because there is an absolute connection between valued employees and happy customers, recruiting, developing, rewarding and retaining the right people is the key to improving the service we offer, and to developing the innovative products and services that improve customers' lives and businesses.

Successful organisations are learning organisations. Which is why we invest around £200 million a year in the training and development of our people, including technical and commercial training, modern apprenticeships, personal skills and management development. The BT Academy, for example, is a virtual corporate university, offering everything from short, "just-in-time" training to Masters degrees.

Given that we aim to deliver an excellent customer experience to all our customers, many of our training and development initiatives are designed to create a customer-focused service-excellence culture within BT.

And it works.

In the 2002 financial year, in the small and medium-sized enterprise (SME) and consumer markets, BT achieved better customer satisfaction scores than our competitors in nine of the 12 months. The percentage of consumers expressing satisfaction with our service provision was up 3.9% on the previous year; while the percentage of business customers expressing satisfaction rose by 2.2%. There was also a 10%



increase in the number of customers reporting that BT had answered their calls "promptly". And we are striving to improve this performance.

Our millions of customers are representative of the population as a whole – young and old, able-bodied and with disabilities, from a variety of ethnic, cultural and religious backgrounds, of different sexual orientations, with and without responsibilities to care for others.

Connecting successfully with them means reflecting that diversity within our organisation. It's an ethical and business imperative that BT people should represent, understand and value different perspectives.

We are members of organisations such as Opportunity Now and Race for Opportunity, which seek to promote diversity and equality of opportunity in the workplace, and recently won the Parents at Work/DTI Employer of the Year Award, impressing judges with our approach to helping people achieve the right work/life balance.

We also encourage our people to help their local communities.

And if BT people are to go on meeting the needs of their customers, they're going to have to spend more of their time focused on the future, understanding the possibilities of our industry.

Our research and development laboratories have an enviable reputation for vision, inspirational thinking and delivering technological excellence. This is where we develop the communications services that will enhance our customers' lives one, five and ten years from now.



# Meeting customers' needs



Some of our customers' communications needs are simple and some of our customers' communications needs are complicated.

Our job is to find the most effective way to meet those needs, however simple, however complicated.

We recognise that there's more than one way to deliver integrated, end-to-end services, and that you don't have to own everything in between.

Reach and facilitation are not the same thing as ownership and, from our customers' perspective, what we enable them to do and the prices we charge are more important than how we enable them to do it.

For example, although we have unwound the Concert joint venture with AT&T and disposed of stakes in a number of ventures outside the UK, we are still very active internationally and continue to offer full global connectivity, if that's what our customers want.

The main goal of our European solutions business, for example, is to meet the communications needs of multi-site corporate customers with European operations.

We aim to take the complexity out of communications for them, whether their objective is straightforward cost reduction, or the strategic development of e-business capability.

Similarly, although we demerged the majority of our mobile operations into mmO2, we still offer a full range of mobile services in the UK.

We have a trading arrangement with mmO2, which means, for example, that individual consumers or small businesses can buy mobile phones via [www.bt.com](http://www.bt.com).

And by June 2003, we will have launched the UK's first-ever public access wireless local area network (LAN). A range of national access points in airports, stations, hotels and so on, will enable customers to connect to the internet from their laptop or hand-held device, at faster speeds than are currently possible via wireless connections.

And our account managers can work with our business customers who want more complex mobile services, wireless application protocol (WAP), m-commerce or integrated fixed/mobile solutions, just as we'll work with our wholesale customers who want to offer these services to their customers.

In April 2002, for example, we unveiled a range of mobility initiatives designed to help make the concept of "business agility" a reality for our corporate customers. The new services will buy airtime from mmO2 and will be BT-branded from top to bottom.

Other mobile operators are also recognising the value of working with us. Our expertise in the solutions business and one-stop shop capability is helping them develop their third-generation (3G) networks.

One of the reasons we're able to offer as much or as little as our customers want is that we have vast experience in creating great networks.

We have the largest capacity telecommunications network in the UK, with the most extensive geographical reach and comprehensive customer coverage.<sup>2</sup>

The growth of internet protocol (IP), e-business, multimedia applications and mobile communications has given rise to a dramatic increase in demand for bandwidth.

The plan over the next five years is to move from a circuit-switched to a predominantly packet-switched network, which will bring with it a range of major customer benefits, including enhanced service, speed, flexibility and capacity.

And we have major network depth and reach in continental Europe, from the Nordic countries to Spain. Our pan-European network is an advanced and extensive IP-enabled network, with 20 hosting centres in 16 countries, covering 56,000 kilometres and linking 300 large towns and cities.

And we are continuing to invest, approaching £3 billion a year, to create a twenty-first century network that will continue to offer our customers the best possible communications services and solutions.

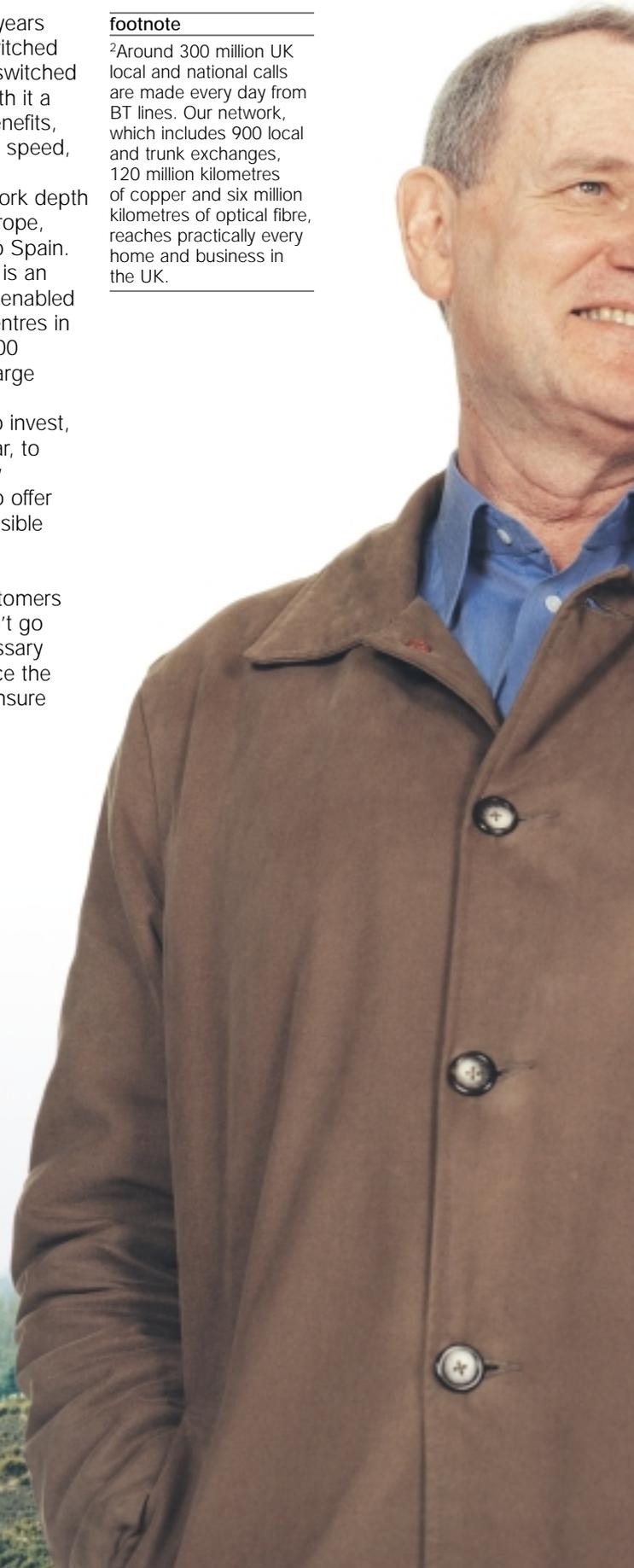
The message to our customers is: even if our networks don't go there, we'll create the necessary relationships and put in place the necessary agreements to ensure that they can.

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**footnote**

<sup>2</sup>Around 300 million UK local and national calls are made every day from BT lines. Our network, which includes 900 local and trunk exchanges, 120 million kilometres of copper and six million kilometres of optical fibre, reaches practically every home and business in the UK.

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# Broadband

We're in the business of making Britain click and hum. The development of a range of broadband services is at the heart of our plans for growth.

Technology has made it possible for us to transform the copper telephone wire to the home into a multimedia superhighway.

The ordinary telephone socket on the wall can now be a gateway to a vast range of services, including telephony, messaging, music, movies, software, games and information.

Digital subscriber line (DSL) technology enables the existing copper local loop (the link between a customer's premises and the local telephone exchange) to operate at much faster speeds than was previously possible.<sup>3</sup>

We are the UK's leading provider of DSL broadband services – by 31 March 2002, over 1,000 of our exchanges had been DSL-enabled, bringing over 60% of the population within reach of DSL services.<sup>4</sup> And in April 2002, we announced that we will be enabling a further 100 exchanges, bringing coverage to 66%.

At the end of May 2002, we plan to start trials of a new satellite delivery service for high-speed internet access across the UK. This service, which is aimed at small businesses and high-use residential customers, will allow always-on receipt of e-mail as well as fast download of music, photos and other documents. If successful, the service could be made available throughout the UK, including in rural areas not currently within the reach of DSL broadband.

We believe that there is huge growth potential in the UK broadband market, provided that services are attractive, affordable and accessible.

And BT is showing the way.

From 1 April 2002, we substantially reduced the wholesale prices we charge internet service providers (ISPs) to use our phone lines for high-speed internet access, from £30 per month for an engineer-installed product or £25 a month for a self-installed basic product, to £14.75 per month. This has enabled them, in turn, to reduce the retail prices they charge their customers, who can now take broadband for less than £30 per month.



From the same date, we cut the retail price of our BTopenworld broadband service from £39.99 a month to £29.99 a month for domestic and business users, and in March we launched Plug & Go, a self-install broadband product, which means that there is no need to arrange a visit from an engineer.<sup>5</sup>

In April 2002, we also announced the launch of BT Broadband, a “no frills” broadband product, which connects customers directly to the internet, without the need to go through a portal.

But pricing is not the only issue; there’s also the wow factor.

Our target is to achieve five million UK connections by 2006, and the marketing challenge is to find the right mix of what’s technically possible and what customers want.

Early adopters of broadband are already seeing the benefits.

The “second wave” internet experience is qualitatively very different from the first – faster, always on, more interactive and with much higher quality audio and video than was previously available.

And BT is already playing a part in marketing services to second wave internet users. For example, we offer a classical music service which offers members unlimited listening to an instant online classical collection and the chance to download ten pieces of classical music from the internet for a monthly fee of £7.99.

And in April 2002, we acquired the assets of dotmusic.com, one of Europe’s most successful popular music sites, with 1.6 million users.

We’ve also acquired the assets of Games Domain – the UK’s leading online games site, with 800,000 unique users.

Of course, broadband is more than an online connection. It’s also a powerful business tool.

Broadband will transform the way businesses communicate with their customers, suppliers, shareholders and employees. It will enable them to sell and market in new ways, and to explore new markets and new opportunities.

For example, we offer a broadband access product, Teleworker, which gives remote workers always-on access to vital corporate information, and gives businesses access to a wider range of people and skills.

Broadband is our future.

And that’s not just a prediction about the way technology’s going; it’s a commitment to our customers – a commitment to work with them to transform the UK broadband services market.

Like we said, everything begins and ends with our customers.

Like we said, it couldn’t be simpler ... or more challenging ... or more fun.

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#### footnotes

<sup>3</sup>Typically, ADSL operates at 500Kbit per second. However, speeds can be enhanced up to 2Mbit per second.

<sup>4</sup>DSL connections are running at up to 10,000 a week and as at 31 March 2002, we had installed a total of 170,000 DSL lines.

<sup>5</sup>For a one-off activation charge of £65, a modem charge of £85 and monthly rental of £29.99, customers can order a comprehensive installation pack and agree a date by when their line will be activated.

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# Business review

and summary directors' report

BT is one of Europe's leading providers of telecommunications services. Its principal activities include local, national and international telecommunications services, higher-value broadband and internet products and services, and IT solutions.

## Operating performance

BT Group's operating results were satisfactory. Group turnover from our continuing activities increased by 8% in the year and our earnings before interest, tax, depreciation and amortisation (EBITDA) before exceptional items on continuing activities were in line with last year.

## Dividend

BT's future dividend policy will be progressive, reflecting the growth in earnings per share and an improving balance sheet. It is likely that the dividend cover during the next three years will be in the range of 2.5 to 2.0 times reducing within the range as the group's cash position improves.

## Rights issue

In June 2001, we completed the UK's largest ever rights issue: some 1.98 billion new shares were issued, raising £5.9 billion net of expenses.

## Disposals

During the year, we disposed of a number of businesses and interests.

In June 2001, we sold Yell, our international directories and e-commerce business, for approximately £2 billion.

Other disposals included our interests in Japan Telecom and J-Phone for £3.7 billion and Airtel for £1.1 billion. We also completed the sale and leaseback of the majority of our UK property portfolio for £2.4 billion.

## Demerger of mmO2

On 19 November 2001, following a Court Meeting and EGM on 23 October 2001, we completed the demerger of mmO2, which comprised the majority of BT's mobile assets in the UK and

continental Europe.

## Concert

On 1 April 2002, we unwound Concert, our international joint venture with AT&T. The businesses, customer accounts and networks are being returned to the two parent companies. We have acquired substantially all Concert's managed services network infrastructure in Europe, Africa, the Middle East and the Americas, and substantially all of the customer and supplier contracts that we originally contributed to Concert.



## BT Retail

Years ended, or as at, 31 March	2002	2001
Group turnover	£12,085m	£12,063m
Group operating profit	£1,102m	£888m
No. of employees ('000)	50.8	53.6

Note – before goodwill amortisation and exceptional items

BT Retail is the UK's largest communications service provider, by market share, to the residential and business markets, and the prime channel to market for the other businesses in the BT group.

It supplies customers with a wide range of products and services, including voice, data, internet and multimedia services, as well as offering managed and packaged communications solutions.

In the residential, fixed-voice call market, BT Retail's market share remained stable over the year at 73%. Exchange line turnover accounted for approximately 30% of BT Retail's revenues in the year. There was a marginal increase in the number of residential lines

(brought about by a combination of a rise in demand for second lines and customers returning to BT from other operators) and the number of business lines grew by 1.3%, in large part because of the growth in demand for high-speed ISDN services.

The BT Together and "SurfTime" packages, which were enhanced during the year, now have more than ten million customers and account for 71% of residential customer call minutes.

Existing new-wave business, including high speed ISDN lines, digital private circuits and conferencing, achieved growth of 10%, and BT Retail has announced a target of a 4% per annum increase in incremental revenue from existing new-wave business by the 2005 financial year.

## BT wholesale

Years ended, or as at, 31 March	2002	2001
Group turnover	£12,256m	£11,728m
Group operating profit	£2,242m	£2,538m
No. of employees ('000)	29.8	30.0

Note – before goodwill amortisation and exceptional items

BT Wholesale provides network services and solutions within the UK to communication companies, network operators and service providers, and to other BT lines of business.

During the year, BT Wholesale continued to drive its strategic objectives to:

- evolve the UK network from a predominantly fixed-voice technology, towards data, IP and mobile technologies

- create a products and services portfolio that will sustain traditional product revenues while helping wholesale customers move up the value chain
- become the number one provider in the high-growth UK broadband and data market.

In the year, we invested almost £2 billion in our network, in a highly focused way, using new technology to grow scale and capabilities for the future.

Over £100 million (a rise of 240% on the previous year) of new business revenues were generated from sales of broadband and data products, network facilities management and content and applications solutions.

## BT ignite

Years ended, or as at, 31 March	2002	2001
Group turnover	£4,476m	£3,468m
Group operating loss	£(353)m	£(309)m
No. of employees ('000)	16.4	18.8

Note – before goodwill amortisation and exceptional items

BT Ignite is BT's business services and solutions division, serving customers worldwide. Its strategy is to deliver managed networks and communications solutions to multi-site corporate customers with activities in one or more European countries, including customers who operate globally with needs in Europe.

BT Ignite's European network covers 56,000 kilometres, linking to 300 large towns and cities, with 20 hosting centres spanning the continent and Europe's largest IP virtual private network capability.

It also has a worldwide network of partnerships, joint ventures and distributors to meet customers' needs in the USA and Asia.

## BT openworld

Years ended, or as at, 31 March	2002	2001
Group turnover	£222m	£140m
Group operating loss	£(118)m	£(233)m
No. of employees ('000)	0.4	0.5

Note – before goodwill amortisation and exceptional items

BTopenworld provides consumers and SMEs in the UK with a range of narrowband and broadband internet access and related services.

As at 31 March 2002, BTopenworld had approximately 1.75 million UK ISP customers, including over one million customers on narrowband unmetered packages, making it one of the largest unmetered internet access providers in the UK. Under the *Powered* brand, it also offers wholesale internet virtual ISP services.

BTopenworld's achievements during the year included reducing the losses of its broadband service, launching a Plug & Go self-install broadband product, launching the UK's first satellite-based internet access service, and purchasing the leading UK online games and music sites, Games Domain and dotmusic.

### BTextact Technologies

In the 2002 financial year, BT invested £362 million in research and development, primarily through BTextact Technologies, our internationally-renowned centre of communications technology. This compared with £364 million and £345 million in the 2001 and 2000 financial years, respectively.

### Customer satisfaction

Customer satisfaction is at the heart of BT's strategy.

During the financial year, there were sustained improvements in several areas. For example, consumer provision and repair were both 3.9% better than the previous year and there was a 2.2% improvement in business provision, but a slight decline of 0.6% in business repair.

### Our people

As at 31 March 2002, BT employed around 108,600 people, primarily in the UK, making us one of the UK's largest employers. During the 2002 financial year, approximately 4,200 people left the company voluntarily, with leaver payments or on voluntary redundancy.

BT is an equal opportunities employer and the majority of our employees are members of one of the company's two main pension schemes, both of which are controlled by independent trustees.

In 2002, we spent around £200 million on the training and development of our people and won the Parents at Work/DTI Employer of the Year award for our approach to helping BT people achieve the right work/life balance.

### Our commitment to society

We continue to commit a minimum of 0.5% of our UK pre-tax profits to direct activities in support of society. Contributions totalled £15 million (including £1.2 million to charities) in the 2002 financial year.

During the year, we continued to improve our social and environmental performance and this was recognised by our ranking as the world's number one telecommunications company in the Dow Jones Sustainability Index.

And our social and environmental report, at [www.btplc.com/betterworld](http://www.btplc.com/betterworld), was the joint winner of the first ACCA UK Sustainability Reporting Award.

### Statement of business practice

To reinforce our commitment to achieve best practice in our standard of business integrity, a copy of BT's Statement of Business Practice has been sent to every employee. We also require our agents and contractors to apply these principles when representing BT.

# Board of directors

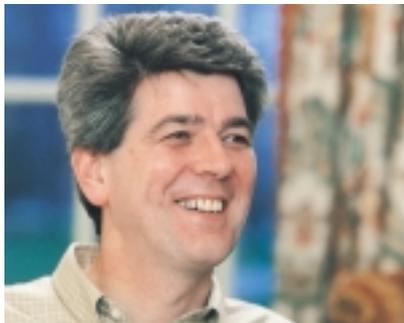
Chairman



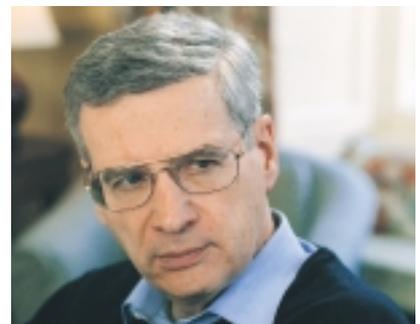
Chief Executive



Executive directors



Non-executive directors



**Sir Christopher Bland**

Chairman D\* E\* F

Appointed to the Board as Chairman on 1 May 2001. Sir Christopher was chairman of the BBC from April 1996 to September 2001. He became a non-executive director of LWT Holdings in 1982 and chairman from 1983 until 1994 when the company was acquired by the Granada Group. He was chairman of NFC from December 1994 to May 2000. Sir Christopher was chairman of the Hammersmith and Queen Charlotte's Hospitals Special Health Authority from 1982 to 1994 and of Hammersmith Hospital's NHS Trust from 1994 to February 1997. Aged 63. *Other appointments:* senior adviser at Warburg Pincus.

**Dr Paul Reynolds**

Chief Executive, BT Wholesale A

Paul Reynolds was appointed to the Board on 19 November 2001. In April 2000 he joined the former Executive Committee as Chief Executive of BT Wholesale. He joined BT from the company's predecessor corporation, which he joined in 1983, and has held a number of roles, including Director of the Office of the Chairman, Director of Multimedia and from 1999, Managing Director of Networks and Information Services. Aged 45.

**Pierre Danon**

Chief Executive, BT Retail A

Pierre Danon, a French national, was appointed to the Board on 19 November 2001. He joined BT as Chief Executive of BT Retail in October 2000 and was a member of the former Executive Committee. From 1981 to 2000, he worked for Rank Xerox (Xerox Limited from 1997), latterly as president of Xerox Europe. He was a senior vice president of Xerox Corporation since 1997. Aged 46. *Other appointments:* non-executive director of Hays plc.

**Sir Anthony Greener** B\* C\* D

Sir Anthony Greener was appointed to the Board on 1 October 2000. He was appointed Joint Deputy Chairman and chairman of the Audit Committee on 1 January 2001. He became Deputy Chairman and chairman of the Remuneration Committee on 18 July 2001. He was formerly chairman of Diageo. Prior to the merger of Guinness and Grand Metropolitan, he was chairman and chief executive of Guinness. Aged 61. *Other appointments:* chairman of University for Industry (learndirect); non-executive director of Robert Mondavi Corporation.

**John Nelson** B D F

John Nelson, a Chartered Accountant, was appointed to the Board on 14 January 2002. He retired as chairman of Credit Suisse First Boston Europe (CSFB) on 31 January 2002. Prior to joining CSFB in January 1999, he was vice chairman of Lazard Brothers from 1990. He was also chairman of Lazard S.p.A in Italy and a managing director of Lazard Freres, New York. He was formerly a non-executive director of Woolwich. Aged 54. *Other appointments:* deputy chairman of Kingfisher.

**Ben Verwaayen**

Chief Executive A\*

Ben Verwaayen, a Dutch national, was appointed to the Board on 14 January 2002 and became Chief Executive on 1 February 2002. He was formerly vice chairman of the management board of Lucent Technologies in the USA from October 1999. After working for KPN for nine years, he joined Lucent in September 1997 as executive vice president international and became chief operating officer the following month. Aged 50. *Other appointments:* member of the advisory council of ING.

**Andy Green**

Chief Executive, BT Ignite A

Andy Green was appointed to the Board on 19 November 2001. He was appointed Chief Executive of BT Ignite in October 2001. He joined BT in 1986 and held a number of positions, including Chief Executive of BTopenworld and Group Director of Strategy and Development. He was a member of the former Executive Committee from February 1995. Aged 46.

**Ian Livingston**

Group Finance Director A F

Ian Livingston was appointed to the Board on 8 April 2002 and became Group Finance Director on 23 April 2002. He is a Chartered Accountant. He was formerly group finance director of Dixons Group from 1997, having joined the corporate finance department of Dixons in 1991. He was also a director of Freeserve from its inception. Aged 37.

**Louis R Hughes** B C

Louis Hughes, a US national, joined the Board on 1 January 2000. He is non-executive chairman of Maxager Technology Inc. (USA). He was formerly president and chief operating officer of Lockheed Martin Corporation and previously executive vice president of General Motors. Aged 53. *Other appointments:* non-executive director of AB Electrolux (Sweden) and Sulzer AG (Switzerland).

**The Rt. Hon. Baroness Jay of Paddington** PC B E

Baroness (Margaret) Jay was appointed to the Board on 14 January 2002. She was formerly Lord Privy Seal, Leader of the House of Lords and Minister for Women. Previously, she was Minister of State at the Department of Health. She also had a distinguished career as a broadcaster and producer of current affairs programmes. Aged 62. *Other appointments:* non-executive director of Independent News & Media UK; chairman of the Overseas Development Institute.

**Directors**

Prior to the restructuring, David Borthwick and Alan Scott were directors of Newgate Telecommunications Limited (which changed its name to BT Group plc on 11 September 2001) from 30 March to 10 September 2001.

In addition to the directors shown here, Sir Iain Vallance was chairman until 1 May 2001 and remains as President Emeritus until 31 July 2002. Lord Marshall and Dr Iain Anderson served on the Board as non-executive directors until they retired on 18 July and 30 September 2001, respectively. Helen Alexander, Neville Isdell, June de Moller and Sir John Weston served as non-executive directors until 14 January 2002. Sir Peter Bonfield stepped down as chief executive on 31 January 2002. Philip Hampton was Group Finance Director until April 2002.

All of the non-executive directors are independent of the management of the company.

It is BT's intention to appoint a further non-executive director so that the Board will have a majority of non-executive directors

**Larry Stone**

Company Secretary

Larry Stone was appointed Company Secretary on 27 March 2002. He was formerly Corporate Governance Director from June 2000. He is a trustee of the BT Pension Scheme. Aged 44. *Other appointments:* member of the executive committee of the British Quality Foundation.

**Key to membership of Board committees**

- A Operating
- B Audit
- C Remuneration
- D Nominating
- E Community Support
- F Pension Scheme Performance Review Group

\* Chairs committee

**Maarten van den Bergh** B C D F\*

Maarten van den Bergh, a Dutch national, was appointed to the Board on 1 September 2000. Prior to his retirement in July 2000, he was president of the Royal Dutch Petroleum Company and vice chairman of its committee of managing directors from July 1998, having been appointed a managing director of the Royal Dutch Shell Group of companies in July 1992. Aged 60. *Other appointments:* Chairman of Lloyds TSB Group; non-executive director of Royal Dutch Petroleum Company.

**Carl G Symon** B C

Carl Symon, a US national, was appointed to the Board on 14 January 2002. He is managing director, global business development, for DiamondCluster International Inc. (USA). He retired from IBM in May 2001 after a career of 32 years during which he held several senior executive positions, including chairman and chief executive of IBM UK. Aged 56. *Other appointments:* chairman of Metapack, Riversoft and Worldmark International; non-executive director of Rolls-Royce, and a member of the advisory board of Cross Atlantic Capital Partners.

# Summary group profit and loss account

for the year ended 31 March 2002

Group turnover from continuing activities increased by 8% to £18.4 billion. This reflects increased sales by BT Wholesale to other telecommunication network operators and improvements in the high growth areas of BT Ignite and BTopenworld.

Total operating profit from continuing activities before goodwill amortisation and exceptional items declined by 9% to £2,663 million reflecting reduced operating

profits and losses in the Concert joint venture.

Net interest payable increased by £308 million to £1,622 million reflecting the investments in 3G licences made in 2001 and subsequently demerged with mmO2.

The Board recommends a final dividend of 2.0p per share, amounting to £173 million.

## Total turnover

Products and services sold to customers by BT, together with our share of our ventures' sales.

## Net interest payable

Interest paid on borrowings less interest received on short-term investments.

## Earnings (loss) per share

Our profit (loss) for the financial year divided by the average number of shares in issue during the period.

	Continuing activities			Discontinued activities and intra-group items 2002 £m	Total 2002 £m	Total <sup>(b)</sup> 2001 £m
	Before goodwill amortisation and exceptional items 2002 £m	Goodwill amortisation and exceptional items <sup>(c)</sup> 2002 £m				
<b>Total turnover</b>	<b>21,815</b>	<b>–</b>	<b>2,827</b>	<b>24,642</b>	<b>29,666</b>	
Less group's share of ventures' turnover, excluding trading between group and principal joint venture	(3,368)	–	(715)	(4,083)	(9,239)	
<b>Group turnover</b>	<b>18,447</b>	<b>–</b>	<b>2,112</b>	<b>20,559</b>	<b>20,427</b>	
Group operating profit (loss)	2,771	(2,817)	(433)	(479)	27	
Group's share of operating profit (loss) of ventures	(108)	(1,335)	62	(1,381)	(397)	
Total operating profit (loss)	2,663	(4,152)	(371)	(1,860)	(370)	
Profit on sale of fixed asset investments and group undertakings	–	21	4,368	4,389	619	
Profit on sale of property fixed assets	27	1,062	–	1,089	34	
Amounts written off investments	–	(535)	–	(535)	–	
<b>Net interest payable</b>	<b>(1,417)</b>	<b>(162)</b>	<b>(43)</b>	<b>(1,622)</b>	<b>(1,314)</b>	
<b>Profit (loss) before taxation</b>	<b>1,273</b>	<b>(3,766)</b>	<b>3,954</b>	<b>1,461</b>	<b>(1,031)</b>	
Taxation	(528)	143	(58)	(443)	(712)	
<b>Profit (loss) after taxation</b>	<b>745</b>	<b>(3,623)</b>	<b>3,896</b>	<b>1,018</b>	<b>(1,743)</b>	
Minority interests	(10)	–	(13)	(23)	(127)	
<b>Profit (loss) for the financial year</b>	<b>735</b>	<b>(3,623)</b>	<b>3,883</b>	<b>995</b>	<b>(1,870)</b>	
Dividends (see below)				(173)	(571)	
Retained profit (transfer from reserves)				822	(2,441)	

## Earnings (loss) per share

12.0p (25.7)p

## Dividends per share

2.0p 7.8p

## Total operating profit from continuing activities before goodwill amortisation and exceptional items

2,663 2,925

## Earnings per share from continuing activities before goodwill amortisation and exceptional items

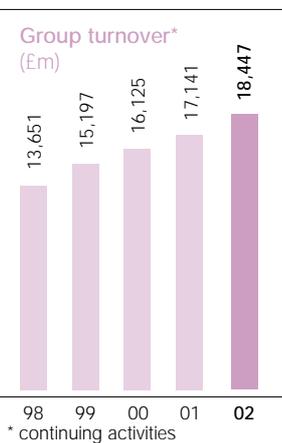
8.8p 19.3p

In addition to the final dividend recommended for the year of £173 million there was a demerger distribution of £19,490 million, representing the net assets of mmO2 (including purchased goodwill) at the date of demerger.

Directors' emoluments 5.0 4.3

Value of shares received by directors under long-term incentive schemes and gains from share options 0.6 0.8

The executive directors receive pensions on retirement. Retirement benefits are accruing to two directors under defined contribution arrangements and to four directors under a defined benefit scheme.



(a) During the 2002 financial year, in addition to the demerger of mmO2, BT disposed of its interests in Japan Telecom and J-Phone Communications, Airtel and Yell. These business activities are shown as discontinued activities. The intra-group items represent transactions between the continuing and discontinued activities.

(b) Comparative figures have been restated in accordance with FRS19 "Deferred Tax" and for the effect of the rights issue which closed on 15 June 2001.

(c) Includes goodwill amortisation of £162 million (2001 – £166 million) and net exceptional losses of £3,604 million (2001 – profits of £340 million) before taxation and minority interests. Net exceptional losses in 2002 are principally goodwill and asset impairments offset by profits on sale of properties of £1,062 million.

(d) Includes goodwill amortisation of £243 million (2001 – £392 million) and net exceptional profits of £4,357 million (2001 – losses of £2,885 million) before taxation and minority interests. Net exceptional profits in 2002 are principally profits on sale of discontinued activities.

# Summary group balance sheet

at 31 March 2002

The group balance sheet has been re-engineered since 31 March 2001 as a result of the rights issue, demerger of mmO2, capital reduction, disposals of non-core investments and businesses, the property sale and leaseback and the unwind of Concert.

Net debt has been halved since the last year end to £13.7 billion at 31 March 2002 – £5.9 billion raised by the rights issue, £8 billion from the disposal of businesses, including interests in Japan and Spain,

and Yell, and £2.4 billion from the sale and leaseback of our properties.

Capital expenditure on property, plant and equipment in continuing activities has been reduced by 20% to £3.1 billion, reflecting tight control over spending.

Return on capital employed from continuing activities before goodwill amortisation and exceptional items was 16% for the year.

	2002 £m	Proforma <sup>(e)</sup> 2001 £m	2001 <sup>(b)</sup> £m
<b>Fixed assets</b>	<b>17,551</b>	23,883	45,209
<b>Current assets</b>	<b>10,122</b>	8,103	9,590
Creditors: amounts falling due within one year	(9,390)	(12,492)	(20,733)
Net current assets (liabilities)	732	(4,389)	(11,143)
Total assets less current liabilities	18,283	19,494	34,066
<b>Creditors: amounts falling due after one year</b>	<b>16,245</b>	18,775	18,775
<b>Provisions for liabilities and charges</b>	<b>2,324</b>	2,512	2,738
Minority interests	72	499	499
Capital and reserves <sup>(f)</sup>	(358)	(2,292)	12,054
	<b>18,283</b>	19,494	34,066

(e) Unaudited pro forma balance sheet information has been presented for BT at 31 March 2001 as if the demerger of mmO2 and the sale of other discontinued businesses (see note a, page 18) had occurred on that date.

(f) Although the consolidated capital and reserves show a deficiency of £358 million, BT Group plc, the company, has capital and reserves at 31 March 2002 of £10 billion.

## Total shareholder return

Total shareholder return (TSR) is the measure of the returns that a company has provided for its shareholders reflecting share price movements and assuming reinvestment of dividends. It is therefore a good indicator of a company's overall performance.

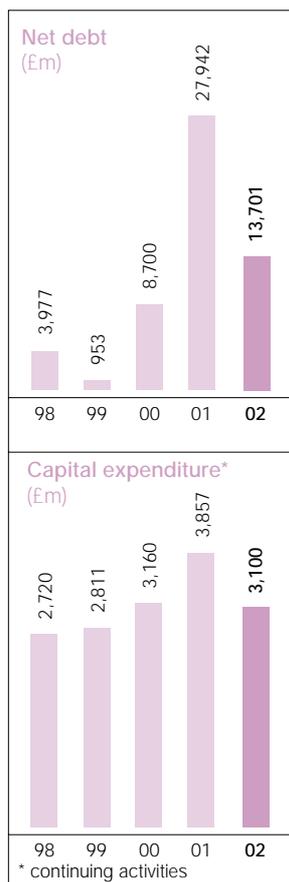
Since the demerger on 19 November 2001, BT Group's share price rose slightly from 278p to close at 280p on 31 March 2002. In this period, BT Group's TSR was in line with the FTSE 100 index at 0.7%. This was significantly better than the performance of the FTSE 350 UK telco index and the FTSE European 300 telecom services sector.

During the 2002 financial year, BT's TSR was 21.7% negative while the FTSE 100 TSR was minus 4.0%. However, BT outperformed the UK telco index and European telecom sector as noted above.

Over the last five years, BT initially performed very strongly but, like many stocks in the technology, media and telecommunications (TMT) sector, suffered falls in its share price during the decline of the past two years. BT Group's TSR (as adjusted for the rights issue and demerger) over the last five years was 16.4%, compared to a FTSE 100 TSR rise of 40.5%.

## Corporate governance

BT is committed to the highest standards of corporate governance. The directors consider that, throughout the year, BT has applied the principles in section 1 of the Combined Code on Corporate Governance, issued by the UK Listing Authority.



# Auditors' statement

summary financial statement

**The auditors' report on the full annual accounts for the year ended 31 March 2002 is unqualified and does not contain any statement concerning accounting records or failure to obtain necessary information and explanations.**

This summary financial statement was approved by the Board on 21 May 2002 and was signed on its behalf by:

**Sir Christopher Bland**  
Chairman

**Ben Verwaayen**  
Chief Executive

**Ian Livingston**  
Group Finance Director

## Important note

This summary financial statement does not contain sufficient information to allow for as full an understanding of the results of the group and state of affairs of the company or the group as would be provided by the full annual report. Shareholders who would like more detailed information may obtain a copy of the full annual report for 2002 and/or future years, free of charge, by completing and returning the request card that accompanies this annual review or view it online at [www.btplc.com/investorcentre](http://www.btplc.com/investorcentre)

## Forward-looking statements

Please see the cautionary statement regarding forward-looking statements in the BT Group plc Annual Report and Form 20-F 2002.

## Auditors' statement to the members of BT Group plc

We have examined the summary financial statement set out on pages 14 to 19.

## Respective responsibilities of directors and auditors

The directors are responsible for preparing the summarised annual report. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the BT Group annual review with the annual financial statements and directors' report and its compliance with the relevant requirements of Section 251 of the United Kingdom Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the summarised annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

## Basis of opinion

We conducted our work in accordance with "The auditors' statement on the summary financial statement" issued by the Auditing Practices Board.

## Opinion

In our opinion the summary financial statement is consistent with the full annual financial statements and the directors' report of BT Group plc for the year ended 31 March 2002 and complies with the applicable requirements of Section 251 of the Companies Act 1985, and the regulations made thereunder.

## PricewaterhouseCoopers

Chartered Accountants and Registered Auditors  
London  
21 May 2002

# Online information

An increasing number of shareholders are using the internet and e-mail to find out about BT Group and about their shareholding.

## Annual Review online

You can now receive shareholder publications, including the Annual Review, electronically rather than by post. By using the Lloyds TSB Registrars Shareview service, you will receive an e-mail alert each time we place a new publication for shareholders on our website.

Alternatively, to obtain printed copies of these reports, please contact our Shareholder Helpline (see over).

In addition, a wealth of constantly updated information about BT Group and its activities is available at [www.btplc.com](http://www.btplc.com).

Our Investor Centre at [www.btplc.com/investorcentre](http://www.btplc.com/investorcentre) contains information of particular interest to our shareholders, including the quarterly results and major announcements.

## Shareview enables you to:

- access your shareholdings and see any recent changes resulting from sales, purchases or transfers you've made;
- build a full portfolio of your shares, which you can manage easily online;
- obtain indicative prices for your shares; and
- appoint a proxy electronically to represent you at company meetings, such as the AGM.

## Registering with Shareview is easy and there is no registration fee. Simply:

1. Access [www.shareview.co.uk](http://www.shareview.co.uk)
2. Click on "Create a portfolio" and complete the on-screen registration process. You will need your shareholder reference number, which is shown on your share certificate(s). You will be asked to choose a secret PIN.
3. When you have registered, you will be sent a user ID by post. You can then use your user ID and self-chosen PIN to get secure access to Shareview as often as you like, 24 hours a day, 7 days a week.

# Enquiries

## Shareholder enquiries

As well as e-communications, there are a number of other ways in which you can find out about BT Group and your shareholding. Full details are given on the Shareholder information page of the Notice of Annual General Meeting 2002 which is enclosed with this Annual Review.

For general enquiries, contact the Shareholder Helpline on **Freephone 0808 100 4141**.

## Special needs

An audio cassette version of this Annual Review has been produced for shareholders with special needs. To obtain a copy of this cassette, which also contains extracts from the Notice of the 2002 Annual General Meeting, please contact the Shareholder Helpline.

## Customer services

Shareholders wishing to know more about the services that we provide for residential customers, some of

which feature in this Annual Review, might like to phone us on the following numbers or visit the following websites:

BT Together – Dial 150 or visit **[www.bt.com/together](http://www.bt.com/together)**  
Messaging services (including BT Answer 1571 and BT Call Minder) – Dial 0800 004 800 or visit **[www.bt.com](http://www.bt.com)**  
Internet access services (BTopenworld) – visit **[www.btopenworld.com](http://www.btopenworld.com)**  
BTopenworld Broadband Home 500 Plug & Go – Dial 0845 601 5190 (calls are charged at local rates) or visit **[www.btopenworld.com/broadband](http://www.btopenworld.com/broadband)**

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

## Business services

We also offer a range of solutions for businesses of all sizes within the UK. For more information contact us on 0800 400 400 or visit **[www.bt.com/business](http://www.bt.com/business)**



**BT** Group

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Registered office:  
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London EC1A 7AJ  
Registered in England and Wales  
No. 4190816

[www.btplc.com](http://www.btplc.com)

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