



Annual Review and  
summary financial statement 2003

making our  
**strategy**  
**work**

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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.

making our  
**strategy**  
work

Our strategy is a commitment to our shareholders, our customers, our people and the communities in which we operate. It makes plain how we plan to create shareholder value, how we will meet customers' needs and how we will manage and reward the people who work for the company. Our strategy defines us. It tells the world what we are about and what can be expected of us.

In the following pages, we track some of the ways in which we have been translating those words into action in the past year. We want you to know how we are making our strategy work.

## Chairman's message



Sir Christopher Bland, Chairman, reports on a year in which BT further reduced debt, grew its dividend significantly and continued to invest in the future.

### The year

This has been a really good year for BT. We said 12 months ago that, in a turbulent market, your company had taken the hard decisions and necessary actions early. Events have shown that we were right to do so and that we have now established a strong base for sustainable growth. Earnings per share in the year increased by 61% and net debt reduced by over £4 billion. The group generated free cash flow of £1.7 billion. The full year dividend of 6.5 pence per share reflects the group's financial performance, operational strength and confidence in the future.

In the past two years, our net debt has been reduced from £27.9 billion as at 31 March 2001 to £9.6 billion as at 31 March 2003, a reduction of 66%. The foundations of the progress in 2003 were the achievement of operating efficiencies and the sale of non-core assets, such as our stake in Cegetel, which we sold for £2.6 billion. Progress was sustained by improving service in our traditional markets, and our growing success in such new-wave markets as broadband, mobility, information and communications technology (ICT) and solutions. We continue to invest in and to transform our network to help take our 20 million customers into a future shaped by new communications possibilities.

### Purpose and responsibilities

As a business, our purpose is to connect the worlds of our customers. In achieving that purpose we will provide the greatest customer satisfaction and enjoy commercial

success if we make every experience of our services simple and complete.

Your company's broader responsibilities include the maintenance of a good reputation, definitive standards of governance and a coherent corporate social responsibility programme, all vital to encouraging investors to put their trust in us, customers to buy from us and the best people to work for us. This sense of responsibility runs through the whole of our organisation.

### Pensions

BT takes its responsibilities to its pensioners, existing and prospective, very seriously. The result of a recent valuation of the main BT pension scheme, carried out by the independent actuary appointed by the Scheme trustees, showed a funding deficit of £2.1 billion. This compares to £1 billion at the last formal valuation in 1999. BT has agreed it will make good this deficit with additional annual payments of £232 million, compared to the £200 million additional annual payments that BT has been making.

### Strength of the BT Pension Scheme

The BT Pension Scheme, which has been closed to new members since 31 March 2001, is backed by BT. The Scheme assets are controlled by trustees who must act in the best interests of its members. Any deficit has to be made good by the company, and no changes can be made to the rules and benefits that apply to Scheme members without the agreement of the trustees.

**Key events and achievements****June 2002**

Launch of Openzone, BT's public wireless LAN hotspot service

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**September 2002**

The UK's most intensive TV campaign stimulates demand for broadband

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**November 2002**

BT wins €1 billion contract to manage and develop Unilever's global communications infrastructure

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**January 2003**

Sale of stake in Cegetel for £2.6 billion

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**April 2003**

BT announces that it has connected more than 800,000 broadband customers

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**Company Board**

I am delighted to welcome Clay Brendish, former deputy chairman of CMG plc, and founder and former executive chairman of Admiral plc, to the Board. Clay brings with him a wealth of experience in the information technology industry. His appointment with effect from 1 September 2002, on which shareholders will have the opportunity to vote at this year's AGM, means that independent non-executive directors constitute a majority on your Board.

**People and prospects**

Finally, we would like to thank our customers, our shareholders and our people for their continued confidence in and loyalty to the company. We are recognising the efforts of our people in meeting BT's performance targets through awarding them 2% of the pre-tax profits, £36 million, in the form of BT shares.

We believe the company is well placed – financially, operationally and managerially – to meet new challenges and to seize new opportunities ■



Sir Christopher Bland

Chairman  
21 May 2003

## Chief Executive's review



Ben Verwaayen, Chief Executive, explains that BT will create value for shareholders by its passion for customer service, its focus on profitable growth and its commitment to broadband.

A year ago, I said that there were three main parts to BT's strategy. This year, I'm saying the same thing. First, we have a passion for customers. Second, we have broadband at the heart of BT – and BT at the heart of broadband. Third, we have rigorous financial discipline.

By concentrating on these three priorities we can continue to reward shareholders, drive down debt and invest in the business – where it matters.

First and foremost, we are passionate about customers. Every time we deal with a customer, our goal is to deliver an excellent experience – an experience which is simple, but also complete.

We are working to meet the needs that customers have today. And we are innovating to meet the needs they will have tomorrow.

This means getting ever closer to customers, understanding their lifestyles and businesses, establishing long-term relationships with them. We are proud to serve individuals, families, small or medium-sized businesses, and global corporations.

In the past year, our passion for customers has delivered results. For example:

- consumers and businesses are now more satisfied with the way we provide and repair their services, as shown by our satisfaction surveys
- packages such as BT Together, which has ten million residential customers, have been a major success story. From June this year, BT Together will be even simpler,

making minute-by-minute charges for evening and weekend calling a thing of the past

- we are the UK's leading internet service provider for small and medium businesses
- the order book for our solutions business is very strong and orders worth £3.6 billion were taken during the 2003 financial year, including a major €1 billion contract to manage Unilever's worldwide communications network for seven years
- we promised that our major European operations would break even at the EBITDA level and, thanks to our market success and efficiency programme, we delivered
- new business revenues among wholesale customers (other telecoms operators and internet service providers) grew by 85% year on year
- and, very importantly, overall customer dissatisfaction was significantly down by 37% for the company (against the target we set of 25%).

Broadband is the biggest opportunity for growth in the communications market. It's no exaggeration to say that it will be as important to our future as voice telephone calls were to our past. Broadband is more than just another product. It is a whole new way of communicating. It sparks off tremendous demand and is growing at a rapid rate – connections having increased almost fourfold in the 2003 financial year.

Our record over the past year shows how we are meeting this demand:

- at 31 March 2003, we had around 800,000 ADSL (asymmetric digital subscriber line) connections, and we are well on the way to reaching our target of one million this summer
- two-thirds of the UK population is now connected to an ADSL-enabled exchange, and our development of new business models, coupled with technological breakthroughs, could put 90% of the UK's homes and small businesses within reach of broadband services within the next few years.

And as well as signing up customers, we are moving quickly to offer them inspiring new services. Our understanding of what customers want is growing every day and we are making sure that the company is able to provide it. For example, new broadband services were launched, offering music – Dotmusic on Demand, sport – Sportal on Demand, and education – the BT Learning Centre.

Our third key priority is financial discipline. We put our heart into customer service, but also into a rigorous approach to finance.

As the broadband record shows, we have to meet the demands of our customers in a way that also serves the interests of shareholders – in other words, it has to be financially responsible and sustainable.

Financial discipline is not the same thing as cost savings. It's about doing things smarter, raising the bar, proving that it is possible to do more with less. We did substantially reduce operating costs and, in addition, we very carefully targeted our capital expenditure, which was £2.4 billion during the 2003 financial year, a 21% reduction on the previous year, on a like-for-like basis.

We are investing to transform our network. Equipment designed for 20th century services is making way for a true 21st century network, delivering the broadband, multimedia services that today's customers require. It will also deliver these services in the way many of today's

### We have seven strategic imperatives:

- customer satisfaction
- financial discipline
- broadband – at the heart of BT
- value-added solutions for multi-site organisations with European operations
- a clear network strategy, with unified management of all UK networks
- a clear strategy for each customer group, including new services and brand extension
- diverse, skilled and motivated people.

The following pages report on how we are performing against each of these.

Underpinning the seven strategic imperatives is a commitment to the wider community. On page 12 we report back on how we have been exercising our corporate social responsibilities.

customers now demand them – for example enabling customers to configure and adjust their services themselves.

In this network, we are creating a new engine for growth; simultaneously offering lower operating costs and higher performance.

These then are the priorities that we have been focused on in the past year and that we will remain focused on in the year ahead.

Our success will depend not just on making our strategy work but on the way in which we make it work.

The new corporate identity that we unveiled at the beginning of April 2003 defines the kind of company we are now and need to be in the future.

Central to that new identity is a commitment to be simple and complete in all we do. And that, in turn, means living our brand values.

Being *trustworthy* means consistently delivering on our promises. *Helpful* means listening and responding. Being *straightforward* means keeping things simple and clear, and *inspiring* means constantly working to create new communications possibilities. And we have to do everything with real *heart* – showing passion and conviction.

Those values, of course, can only be lived through people – and, of course, our strategy can only be delivered by the teams of motivated people throughout the business. It simply couldn't happen without them. They breathe life into it. They make it work. And I'd like to thank them for their loyalty and their hard work ■



Ben Verwaayen  
Chief Executive  
21 May 2003

# driving up customer satisfaction



We're here for every one of our more than 20 million customers, not the other way round. Whether it's a retail or wholesale customer, large business or single consumer, government department or charitable organisation, our job is to ensure that they get the value-for-money service they need, when they need it.

Customer satisfaction is at the heart of BT's strategy and is a part of everything we do. We're committed to listening to our customers, both through our millions of day-to-day interactions with them and through one of the largest customer research programmes in the UK.

More than 2,000 residential customers and a similar number of our smaller business customers every month get the chance to tell us what they think of us, and we have a monthly tracking survey of our major corporate customers.

Listening to our customers has helped us understand what they want from us. And what they want from us couldn't be clearer:

- we must be easy to contact
- we must keep them informed (we shouldn't need to be chased)
- we must take ownership of their issues and champion their cause
- we must live up to the commitments we make to them. It's as simple – and as tough – as that.

Customers have the right to expect the same levels of service from all parts of BT; it's our job to deal with issues of organisation and overlap, not theirs. We can only achieve this by ensuring that all parts of BT are aligned to meet customer requirements.

We see excellent service as a chance to get on the front foot with our customers. For example, we call our **HomeMover** package customers two days in advance of their move, and on the day itself, to make sure everything's OK.

We don't always get it right, but we're determined to reduce to a minimum the number of times we get it wrong. And that's why BT has set itself a customer service challenge to reduce customer dissatisfaction levels by 25% every year.

During the year, we beat that target by delivering a 37% reduction in customer dissatisfaction with BT overall. All areas of the business improved satisfaction levels, with particularly significant improvements among our international and wholesale customers. And, in most areas of business, satisfaction with BT is well ahead of satisfaction with our competitors.

We believe that personal accountability, backed by efficient systems, will deliver the right customer experience. But it doesn't really matter what we think. In the end, it's our customers who will decide whether or not we've succeeded ■



Alison Ritchie, BT's first Chief Broadband Officer, whose role is to direct and align the people and processes involved in the end-to-end delivery of broadband.

Broadband technology has the potential to change forever the way we live and bring up our families and it's transforming the way in which large and small businesses work, communicate with their customers and market their products. Almost 70% of UK homes are already connected to broadband-enabled exchange areas and that could rise to 90% in the next few years.

**B**roadband communications is a huge opportunity and we believe that the developing broadband market is important to our future success. In the 2003 financial year, the number of broadband connections grew by 380% to around 800,000. Since January, we've been adding well over 20,000 broadband connections every week and, with 936,000 connections at 16 May 2003, are on target to reach one million connections in the summer of 2003.

Broadband has come of age. For consumers at home, it doesn't just mean faster, always-on access to the internet. It means a new world of communication and entertainment possibilities, bringing music, games, video, education and security services down the line.

For business, it can mean increased productivity, innovative collaborations, competitive edge and the chance to get on top of costs. Our business customers have always-on access to a range of valuable business

applications and resources, helping them serve *their* customers more effectively.

Over the past year or so, the broadband landscape has changed beyond recognition. Not so long ago, price and lack of awareness were hot issues for BT and for the rest of the industry. Since then, we've made major reductions to our wholesale and retail broadband prices, introduced special offers, and launched BT's biggest ever advertising campaign to announce that broadband has landed.

We're also doing a great deal to deliver broadband cost effectively to as many parts of the UK as possible. As at 31 March 2003, 67% of UK homes were connected to one of our 1,167 broadband-enabled exchange areas and we are working hard to increase this.

During the year, for example, we launched an innovative registration scheme in more than 800 areas. Once a certain level of demand is registered in any of those areas, the exchange is broadband enabled. As at 31 March 2003, over 320,000 people had registered an interest through this scheme, 44 exchanges had been broadband enabled and a further 247 were in the process of being enabled.

And BT has been working with partners in both the public and private sectors to develop new ways of bringing broadband to parts of the UK where the commercial case for broadband deployment is harder to make ■

# putting broadband at the heart of BT





providing

# value-added solutions

for multi-site organisations

We aim to take the complexity out of communications; and this is as true for our multi-site customers with operations around the world as it is for the individual phone user. However complicated their needs, it's our job to meet them simply and completely. And if they want full global connectivity, then we can work collaboratively around the world to ensure that we can deliver it.

Our extensive global communications network and strong strategic partnerships enable us to serve customers in all key commercial centres of Europe, North America and Asia. In Europe, this network links more than 250 towns and cities across 16 countries back into our UK network, and beyond into the Americas and Asia Pacific.

It's the power, breadth and depth of this network that enables us to meet the communications needs of our top multi-site corporate and government customers with activities in one or more European countries.

We can offer our customers leading-edge global communications via our worldwide virtual private networks. Our award-winning multi-protocol label switching (MPLS) product can be accessed from 60 countries worldwide.

During the year, our global solutions, outsourcing, business transformation and change management businesses have gone from strength to strength. Increasingly, even the largest businesses are looking for

companies that will manage their information and communications technology needs for them, leaving them free to focus on their core activities. In the 2003 financial year, we signed solutions and outsourcing contracts worth £3.6 billion in sales order value, in addition to business transformation and change management contracts worth £800 million.

Top of the list is our contract with Unilever to manage and develop its entire global communications infrastructure. Worth around one billion euros over seven years, the majority of which will come from outside the UK, this is one of the largest outsourcing contracts in UK corporate history.

Another first for BT was the contract we signed with the Bavarian state government in Germany – the largest BT has ever signed with a government outside the UK. Under the seven-year contract, we are responsible for the management and development of the Bavarian state's communications infrastructure.

Other major outsourcing deals were signed with Abbey National, National Australia Group, the NHS Information Authority and Bradford & Bingley, as well as a multi-million pound agreement with Royal Mail to outsource its business and IT services.

We also signed a major business transformation contract with Essex County Council – one of the biggest partnerships of its kind ever established by a county council ■

We have the largest capacity telecommunications network in the UK, capable of reaching nearly every home and business. But the traffic we carry on that network is changing. In response to the rising demand for advanced data, mobile, broadband and internet services, we are transforming our network for the 21st century, to make it capable not just of meeting our customers' needs now, but their future needs as well.

**O**ur network is a fantastic asset. But it's an asset that we have to continue to develop to ensure that it continues to meet our customers' changing needs.

And given that the job of transforming our network is at least equal to our network modernisation programmes of the 1980s and 1990s, we need to combine a clear, customer-driven view of the future with financial discipline now.

Our existing network has more than 29 million connections that we have to take forward into the new-wave future. But, from now on, we are going to be refocusing our investment away from today's circuit-switched technology, in order to be able to spend more on IP (internet protocol) and packet-based technologies.

We believe that our customers want a network that will enable them to shop online, surf the internet, send messages, play games, watch videos, listen to music, access information and – as ever – talk to each other. And they want to be able to do these things wherever they happen to be.

Businesses also want a new generation of low-cost and flexible services. They want to be able to deal in large volumes of information quickly and accurately.

What all customers want is a complete communications service that's easy to access and simple to use.

The new network will be reliable and hands-off, with self-diagnostic and self-healing capabilities, which is why the investment we are making now should lead to significantly lower operational costs in the future ■

delivering a  
**clear network**  
**strategy**



We value every one of our more than 20 million customers, but we recognise that they are not all the same. We are committed to developing customer offerings, taking the BT brand into new areas as necessary, to ensure that our services really match the different ways in which customers lead their lives and run their businesses. One size no longer fits all.

In the consumer broadband market, for example, we continue to make broadband as attractive as possible to as many people as possible, through a coherent suite of products, innovative content, applications and value-added services.

During the year, we launched **BT Broadband**, which offers straightforward, high-speed broadband internet connection. Our **BT Openworld** service, on the other hand, offers a broadband line, plus a value-added service package, which includes webspace, e-mail, protection against viruses and unsolicited e-mails and access to a wide range of content. And BT was approved as an ADSL supplier for Microsoft's Xbox Live and Sony's PlayStation 2 online games services.

During the year, 140,000 customers signed up for **BT Together's** new international options package, which offers 5p per minute flat-rate international calls to 13 destinations. And, in April 2003, we announced a radical pricing change for all **BT Together's** ten million customers. From 1 June 2003, they will see the end of per-minute charging on all evening and weekend voice calls and, on the basic **BT Together** package, will pay just 6p for up to an hour's conversation. Other packages will be introduced which will give unlimited

free calls (up to one hour per call) for a higher monthly fee.

For those customers who want to get the most out of home computing, we've launched **BT Home Computing**, which takes the hassle out of getting online by helping customers choose the right broadband-ready PC and then providing the ongoing advice and support they need.

We are active in the mobile communications market. In October 2002, we launched **Mobile Sense**, enabling customers to select their own call package online and, in February 2003, formed a partnership with T-Mobile (UK) to provide a consumer-led mobile service from summer 2003.

The installation of the first 122 live **BT Openzone** wireless local area network (wi-fi) hotspots in stations, airports, hotels and service stations around the UK offers business people the chance to carry out high-speed transactions while on the move. This is scheduled to rise to 400 by summer this year as part of our drive to have 4,000 hotspots in place by summer 2004.

And, in January 2003, we became the first telecommunications company to cap the cost of business calls when we launched **BT Business Plan**, setting a ceiling of 10p on local and national business calls – provided only that they last less than an hour.

We supply ICT (information and communications technology) solutions to major corporate customers and manage some of the data networks of the UK's top banks.

And we're focused on the needs of our wholesale customers. During the year, for example, we signed a six-year contract with Redstone to provide them with network facilities management ■



developing a clear strategy for

each  
customer group

# building a team of skilled, diverse and motivated people



Every company says that its people are its most valuable asset. That's the easy bit. But if you want to see whether or not they mean it, take a look at how much that company invests in training and development, how well managed and rewarded its people are and how they are encouraged to give of their best.

Our reputation as a progressive and innovative employer not only helps us to recruit and retain an excellent workforce, it also enhances our ability to serve our customers and generate revenues and shareholder value.

During the year, we spent around £70 million on the training and development of BT people.

Because we want every single one of our 104,700 employees to be focused on delivering an excellent customer experience, a number of our training programmes tackle aspects of customer care. Examples include the *My Customer* programme, which aims to strengthen employees' engagement with customers, and "back to the floor" exercises, designed to re-familiarise senior managers with the issues that confront customer-handling staff.

And because we believe that the quality of leadership

talent in the company is essential to the successful delivery of our strategy, we have put in place a number of leadership capability initiatives, ranging from programmes for newly-appointed first-time supervisors to development opportunities for our most senior managers.

Of course, there's no substitute for active participation and one of our more innovative approaches to people development is to encourage them to work in the community, for charities, as school governors, for community groups, environmental projects and so on.

In this way, schools and community organisations benefit from the time and efforts of our people. BT, in turn, benefits from the broadening of our people's management and leadership experience.

We are an equal opportunities employer and want the profile of our workforce to reflect the diversity of the population as a whole. We are active in many equal opportunities and diversity organisations, and our work on gender, age, sexual orientation, race equality and disability is widely recognised. And we actively encourage a flexible approach to work/life balance. Part-time working, working from home, alternative attendance patterns, job sharing, maternity and paternity leave – all help ensure that we have access to the widest possible pool of talent ■

Businesses are not separate from the communities in which they operate; they are an integral part of those communities. At BT, we believe that the way in which we manage social, environmental and ethical issues helps us to preserve and grow shareholder value, and contributes to the creation of a better world.

In 2003, BT was listed as the top telecommunications company in the Dow Jones Sustainability Index – which ranks companies according to their ability to manage these factors to their competitive advantage – for the second year running. And we won the Queen’s Award for Enterprise in recognition of our contribution to sustainable development.

We are committed to achieving best practice in our standards of business integrity, and every employee has a copy of our *Statement of Business Practice*, which defines the way we do business. We also require our agents and contractors to apply these principles when representing BT.

We believe that communications technology can help to tackle social exclusion, and our digital inclusion campaign – *Everybodyonline* – supports the Government’s aim of getting everyone in the UK online within the next few years. The campaign aims to increase access to communications technology in underprivileged areas and deepen understanding of the causes and effects of the digital divide.

Although telecommunications is generally seen as an

environmentally friendly technology, any company the size of BT is bound to have an impact on the environment. Indeed, we are one of the largest single consumers of energy in the UK.

During the 2003 financial year, a combined heat and power supply contract provided 76% of our electricity needs, saving 274,000 tonnes of global warming CO<sub>2</sub> emissions. We reduced our operational vehicle fleet by 9.4% – to 33,979 – and reduced our fuel consumption by 11%. And we also recycled 24% of our total 89,878 tonnes of waste.

We normally commit a minimum of 0.5% of our UK pre-tax profits to direct activities in support of society and, in the 2003 financial year, contributions totalled £8.2 million (including £1.2 million to charities).

We focus on the big issues, where better communication can really make a difference. For example, more than 8,300 schools and around two million young people have had direct experience of the BT Education Programme, a drama-based campaign helping children to improve their communication skills.

And we are working with ChildLine on a major new campaign to help ensure that all young people can be heard. At the heart of this campaign is our commitment to help ChildLine answer every one of the 4,000 children who call them every day.

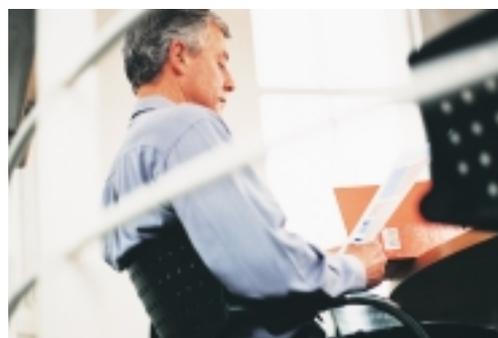
More information on our non-financial performance can be found at [www.bt.com/betterworld](http://www.bt.com/betterworld) ■



living up to our  
broader  
responsibilities

exercising rigorous

# financial discipline



Financial discipline is not just about rigorous cost control – it's also about targeting investment so that it best supports our strategy. We have to make a compelling case for every new investment we make. And we have to continue to do the things we have always done cost effectively, so that we create the scope to do new things as well.

**D**uring the past two years, the success of our debt reduction programme enabled us to resume paying dividends to our shareholders, spend money in the pursuit of new, profitable revenue opportunities and invest in the network of the future.

In the past two years, our debt has been reduced from £27.9 billion as at 31 March 2001 to £9.6 billion as at 31 March 2003, as a result of the sale of non-core assets, such as our stake in Cegetel, and increased cash generation.

We also achieved greater integration of BT Global Services' European businesses through product

harmonisation, network and customer service centre consolidation and people realignment. And by the end of the 2003 financial year, all major European operations in BT Global Services had become EBITDA (earnings before interest, taxation, depreciation and amortisation) positive.

As a result of continuing to attract customers by driving up service levels, enhancing the customer experience and learning from the success of packages such as **BT Together**, we have been able to boost our drive in new-wave markets, specifically those for broadband, mobility, ICT and solutions.

All parts of BT have rigorous cost reduction targets. Our BT Retail business, for example, is in year two of a £800 million cost transformation programme, and our BT Wholesale business is in the second year of a £650 million cash cost reduction programme. Both programmes are focused on efficiency and working smarter, and both are on track for delivery by 2005.

And, of course, we have challenging financial targets relating to all the new things we are doing as well ■

# Report of operations and financial review

## Operating performance

This was a year of strong and sustainable progress from BT. The substantial growth in earnings per share and cash flow reflected the improved operational efficiency of the business. We achieved a significant improvement in customer satisfaction and, with over 936,000 users, broadband is now firmly at the heart of BT.

Our efficiency programmes are delivering significant savings and we continue to invest in the future of the group. Our strong financial performance demonstrates our ongoing ability to reduce debt, reward our shareholders and invest for the future.

The following table sets out the group turnover for each of our lines of business.

Group turnover Years ended 31 March	2003 £m	2002 £m
BT Retail	13,301	12,811
BT Wholesale	11,260	12,256
BT Global Services	5,251	4,472
Other	41	70
Intra-group	(11,126)	(11,162)
Total continuing activities	18,727	18,447
Total discontinued activities	–	2,112
<b>Totals</b>	<b>18,727</b>	<b>20,559</b>

### BT Retail

Years ended, or as at, 31 March	2003	2002
Group turnover	£13,301m	£12,811m
Group operating profit	£1,425m	£984m
No. of employees ('000)	50.4	51.2

Note – before goodwill amortisation and exceptional items

BT Retail, the UK's largest communications service provider, by market share, to the residential and business markets, supplies a wide range of communication products and services, including voice, data, internet and multimedia services, and offers a comprehensive range of managed and packaged communications solutions.

The 2003 financial year saw revenue growth in the residential market for the first time in a number of years, driven by stable market share, stable customer numbers and growth in national calls.

From 1 June 2003, our BT Together pricing package will be streamlined and ten million BT Together customers will have the chance to benefit from the abolition of per-minute charging for evening and weekend calls and the creation of a single UK rate.

During the year, BT Retail's revenues from new-wave activities grew by 46%.

In the major business market, during the 2003 financial year, year-on-year growth of 8% was achieved in the outsourcing business; 58% in IP infrastructure and 416% in broadband.

As at 31 March 2003, BT Openworld, our mass market internet business, had approximately 1.75 million UK consumer and business ISP customers, making it one of the leading internet access providers in the UK.

### BT Wholesale

Years ended, or as at, 31 March	2003	2002
Group turnover	£11,260m	£12,256m
Group operating profit	£1,924m	£2,242m
No. of employees ('000)	27.6	29.8

Note – before goodwill amortisation and exceptional items

BT Wholesale provides network services and solutions within the UK, serving over 500 communication companies, fixed and mobile network operators, and service providers. Its network consists of 885 local and trunk processor units, 119 million kilometres of copper wire and six million kilometres of optical fibre.

As at 31 March 2003, BT Wholesale's installed base of ADSL lines was around 800,000 – growth of 380% on a year ago and on target to reach one million broadband connections by the summer of 2003. 67% of UK consumers were connected to a broadband-enabled exchange area.

BT Wholesale is committed to building a 21st century network which meets customers' needs now and anticipates their future needs as well. This network should lead to longer-term structural cost savings for the business.

### BT Global Services

Years ended, or as at, 31 March	2003	2002
Group turnover	£5,251m	£4,472m
Group operating loss	£(427)m	£(353)m
No. of employees ('000)	17.2	16.7

Note – before goodwill amortisation and exceptional items

BT Global Services (formerly BT Ignite) is our managed services and solutions business, serving multi-site organisations worldwide. Its core target market is the top 10,000 global multi-site organisations with European operations. Building on our existing relationships with large multi-site organisations in the UK and internationally, BT Global Services provides global reach and a complete range of ICT solutions and services.

Our extensive communications network and strong strategic partnerships enable us to serve customers in all key commercial centres of Europe, North America and Asia Pacific. In Europe, this network links more than 250 towns and cities across 16 countries back into our UK network, and beyond into the Americas and Asia Pacific.

BT Global Services won a number of major contracts in the 2003 financial year, including a seven-year contract worth around one billion euros to manage and develop Unilever's global communications infrastructure.

### BT Exact

BT Exact is BT's centre of excellence in IT and networking technologies. The work undertaken by BT Exact is part of an investment of £380 million in research and development that BT made in the 2003 financial year.

### Customer satisfaction

Customer satisfaction is at the heart of our strategy and we have set ourselves a company-wide target of reducing customer dissatisfaction levels by 25% a year. During the 2003 financial year, we beat that target by delivering a 37% reduction in overall customer dissatisfaction.

### Our people

At 31 March 2003, BT employed 104,700 people throughout the world, with 96,300 in the UK.

During the financial year, we invested around £70 million on the training and development of our employees, and achieved a 21% reduction in workplace injuries.

For the 2003 financial year, we allocated £36 million to provide free shares for our employees under the BT Group Employee Share Investment Plan.

### Corporate social responsibility (CSR)

In our view, a well-managed CSR programme supports the delivery of strategy. We normally commit 0.5% of our UK pre-tax profits to direct activities in support of society. Contributions totalled £8.2 million in the 2003 financial year, including £1.2 million to charities.

### Statement of business practice

BT's policy is to achieve best practice in our standards of business integrity in all our operations, in line with our published statement of business practice – *The Way We Work*.

## Financial review

### Profit and loss account

Group turnover from continuing activities increased by 2% to £18.7 billion. This reflects strong growth in new-wave businesses and our defence of revenues in the core

traditional voice businesses. Total operating profit from continuing activities before goodwill amortisation and exceptional items increased by 12% to £3.0 billion, reflecting cost efficiencies offset by increased leaver costs. Net interest payable before exceptional items was £1.1 billion for the year, an improvement of £0.3 billion, reflecting the reduction in net debt. Earnings per share from continuing activities before goodwill amortisation and exceptional items were 14.2 pence, an increase of 61%.

### Balance sheet

The strength of the group balance sheet provides confidence to our customers. Net debt of £9.6 billion is now a third of its peak level of two years ago.

Fixed assets totalled £16.7 billion, of which £15.9 billion were tangible fixed assets, principally the UK fixed network. The return on capital employed before goodwill amortisation and exceptional items on the average capital employed was maintained at 16%.

### Cash flow

Cash inflow from continuing operating activities increased by 20% to £6.0 billion. Capital expenditure of £2.4 billion from continuing activities reduced by 21%, reflecting the continued management focus and tight control. Free cash flow (before acquisitions, disposals and dividends) of £1.7 billion was generated.

### Dividend

The Board recommends a final dividend of 4.25 pence per share, amounting to £366 million, taking the full year dividend to 6.5 pence per share. This dividend is covered 2.2 times by earnings. In view of our strong cash generation and success in reducing net debt, in the 2004 financial year we expect dividend cover to reduce further towards the 2 times target that we set last year.

## Auditors' statement

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

We have examined the summary financial statement set out on pages 14 to 19 and the directors' remuneration disclosures on page 21.

### Respective responsibilities of directors and auditors

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

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

### Basis of opinion

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

### Opinion

In our opinion the summary financial statement is consistent with the full annual financial statements, the directors' report and the directors' remuneration report of BT Group plc for the year ended 31 March 2003 and complies with the applicable requirements of section 251 of the Companies Act 1985, and the regulations made thereunder.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors  
London 21 May 2003.

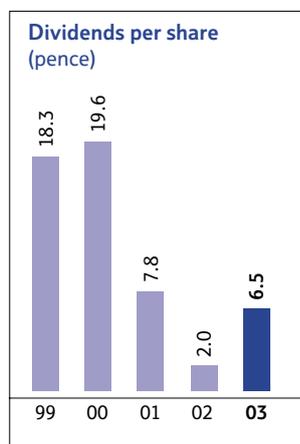
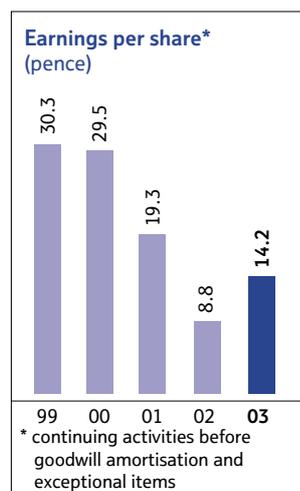
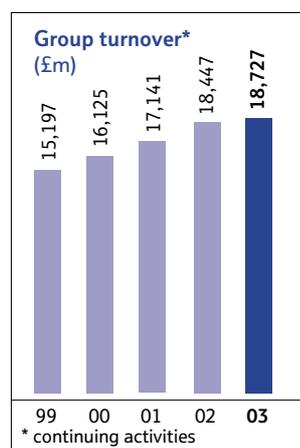
The auditors' report on the full annual accounts for the year ended 31 March 2003 is unqualified and does not contain any statement concerning accounting records or failure to obtain necessary information and explanations.

# Summary financial statement

at 31 March 2003

## Summary group profit and loss account

for the year ended 31 March 2003



	Before goodwill amortisation and exceptional items 2003 £m	Goodwill amortisation and exceptional items <sup>(a)</sup> 2003 £m	Total 2003 £m	Total <sup>(b)</sup> 2002 £m
<b>Total turnover</b>	<b>20,182</b>	–	<b>20,182</b>	24,642
Less group's share of ventures' turnover, excluding trading between group and principal joint venture	(1,455)	–	(1,455)	(4,083)
<b>Group turnover</b>	<b>18,727</b>	–	<b>18,727</b>	20,559
Group operating profit (loss)	2,790	(218)	2,572	(479)
Group's share of operating profit (loss) of ventures	181	148	329	(1,381)
Total operating profit (loss)	2,971	(70)	2,901	(1,860)
Profit on sale of fixed asset investments and group undertakings	–	1,691	1,691	4,389
Profit on sale of property fixed assets	11	–	11	1,089
Amounts written off investments	(7)	–	(7)	(535)
<b>Net interest payable</b>	<b>(1,146)</b>	(293)	<b>(1,439)</b>	(1,622)
<b>Profit before taxation</b>	<b>1,829</b>	1,328	<b>3,157</b>	1,461
Taxation	(598)	139	(459)	(443)
<b>Profit after taxation</b>	<b>1,231</b>	1,467	<b>2,698</b>	1,018
Minority interests	(5)	(7)	(12)	(23)
<b>Profit for the financial year</b>	<b>1,226</b>	1,460	<b>2,686</b>	995
Dividends <sup>(c)</sup>	–	–	(560)	(173)
Retained profit	–	–	2,126	822
<b>Earnings per share</b>			<b>31.2p</b>	12.0p
<b>Dividends per share</b>			<b>6.5p</b>	2.0p
<b>Total operating profit from continuing activities before goodwill amortisation and exceptional items</b>			<b>2,971</b>	2,663
<b>Earnings per share from continuing activities before goodwill amortisation and exceptional items</b>			<b>14.2p</b>	8.8p

(a) Includes goodwill amortisation of £22 million and net exceptional profits of £1,350 million before taxation and minority interests. These net exceptional profits relate principally to the net profit on sale of our stake in Cegetel of £1,216 million and the release of exit related cost provisions of £150 million, offset by a charge of £198 million relating to property rationalisation costs.

(b) Includes goodwill amortisation of £405 million and net exceptional profits of £753 million before taxation and minority interests. These net exceptional profits relate principally to the net profit on disposal of discontinued activities of £4,368 million and the sale of property fixed assets of £900 million. These profits were principally offset by goodwill and asset impairments and exit related costs of £4,027 million.

(c) In addition to the cash dividend for the year ended 31 March 2002 of £173 million there was a demerger distribution of £19,490 million, representing the net assets of mmO2 at the date of demerger.

### 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 per share

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

This summary financial statement was approved by the Board on 21 May 2003 and was signed on its behalf by:

Sir Christopher Bland  
Chairman

Ben Verwaayen  
Chief Executive

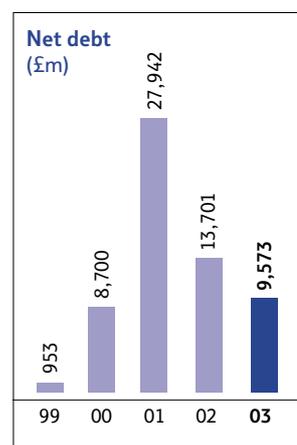
Ian Livingston  
Group Finance Director

## Summary group balance sheet

at 31 March 2003

	2003 £m	2002 £m
<b>Fixed assets</b>	<b>16,661</b>	17,551
<b>Current assets</b>	<b>11,556</b>	10,122
Creditors: amounts falling due within one year	(9,680)	(9,390)
Net current assets	<b>1,876</b>	732
Total assets less current liabilities	<b>18,537</b>	18,283
<b>Creditors: amounts falling due after one year</b>	<b>13,456</b>	16,245
<b>Provisions for liabilities and charges</b>	<b>2,376</b>	2,324
Minority interests	63	72
Capital and reserves <sup>(d)</sup>	<b>2,642</b>	(358)
	<b>18,537</b>	18,283

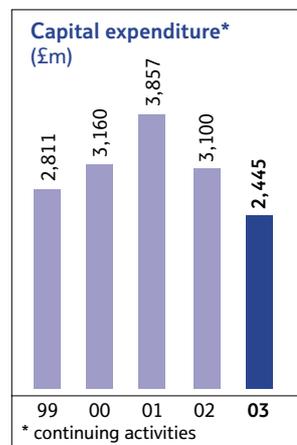
(d) BT Group plc, the company, had capital and reserves at 31 March 2003 of £10 billion.



## Summary group cash flow statement

for the year ended 31 March 2003

	2003 £m	2002 £m
<b>Net cash inflow from operating activities</b>	<b>6,023</b>	5,257
Dividends from associates and joint ventures	6	2
Returns on investments and servicing of finance	(1,506)	(1,695)
Taxation paid	(434)	(562)
<b>Capital expenditure and financial investment</b>	<b>(2,381)</b>	(1,354)
Acquisitions and disposals	2,842	5,785
Equity dividends paid	(367)	-
Cash inflow before management of liquid resources and financing	<b>4,183</b>	7,433
Management of liquid resources	(1,729)	(1,864)
<b>Financing</b>	<b>(2,473)</b>	(5,479)
(Decrease) increase in cash in the year	<b>(19)</b>	90
Decrease in net debt in the year	<b>4,225</b>	13,930



### Fixed assets

This is mainly exchange and network equipment, property and similar items which we own and use to run our business, goodwill and investments.

### Current assets

Principally, amounts which we have billed our customers but not yet received and short term investments.

### Creditors: amounts falling due after one year

Money borrowed on a long term basis to fund our operations.

### Provisions for liabilities and charges

Amounts set aside for liabilities that are not yet certain.

### Net cash inflow from operating activities

Cash receipts less payments from the group's operating activities.

### Capital expenditure and financial investment

Cash receipts less payments from the purchase and sale of fixed assets and investments.

### Financing

Cash receipts less payments arising from loan advances or repayments (not interest) and the issue of shares.

### Important note

This summary financial statement does not contain sufficient information to allow for as full an understanding of the results of the group and state of affairs of the company or the group and of their policies and arrangements concerning directors' remuneration as would be provided by the full Annual Report. Shareholders who would like more detailed information may obtain a copy of the full Annual Report for 2003 and/or future years, free of charge, by calling our Shareholder Helpline on Freefone 0808 100 4141 (+44 121 433 4404 from outside the UK) or can view it online at [www.bt.com/investorcentre](http://www.bt.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 2003.

## Board of directors



**Sir Christopher Bland**  
Chairman  
Appointed to the Board as Chairman on 1 May 2001. Sir Christopher was chairman of the BBC from 1996 to 2001. He became a non-executive director of LWT Holdings in 1982 and was chairman from 1983 to 1994, when LWT was acquired by the Granada Group. Sir Christopher is a former chairman of a NHS hospital trust. Aged 64.  
**Other appointments:** senior adviser at Warburg Pincus.  
D\* E\* F



**Ben Verwaayen**  
Chief Executive  
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. Aged 51.  
**Other appointments:** member of the advisory council of ING.  
A\*



**Dr Paul Reynolds**  
Chief Executive,  
BT Wholesale  
Paul Reynolds was appointed to the Board on 19 November 2001. He has held a number of senior positions in BT, including Director of Multimedia and Managing Director of Networks and Information Services. Aged 46.  
A



**Andy Green**  
Chief Executive,  
BT Global Services  
Andy Green was appointed to the Board on 19 November 2001. He has held a number of senior positions in BT, including Chief Executive of BT Openworld and Group Director of Strategy and Development. Aged 47.  
A



**Pierre Danon**  
Chief Executive,  
BT Retail  
Pierre Danon, a French national, was appointed to the Board on 19 November 2001. From 1981 to 2000, he worked for Rank Xerox, latterly as president of Xerox Europe. Aged 47.  
**Other appointments:** non-executive director of Hays plc.  
A



**Ian Livingston**  
Group Finance Director  
Ian Livingston, a Chartered Accountant, was appointed Group Finance Director in April 2002. He was formerly group finance director of Dixons Group and a director of Freeserve from its inception. Aged 38.  
**Other appointments:** becomes a non-executive director of Hilton Group from 1 June 2003.  
A F

## Non-executive directors



**Sir Anthony Greener**  
Deputy Chairman  
Sir Anthony Greener was appointed to the Board on 1 October 2000. He is Deputy Chairman and chairman of the Audit and Remuneration Committees. He was formerly chairman of Diageo. Aged 62.  
**Other appointments:** chairman of University for Industry (learnirect) and the Qualifications and Curriculum Authority; non-executive director of Robert Mondavi Corporation.  
B\* C\* D



**Louis R Hughes**  
Louis Hughes, a US national, joined the Board on 1 January 2000. He is non-executive chairman of Maxager Technology Inc. (USA). Previous roles include president and chief operating officer of Lockheed Martin Corporation and executive vice president of General Motors. Aged 54.  
**Other appointments:** non-executive director of AB Electrolux (Sweden), Sulzer AG and ABB Ltd (both Switzerland).  
B C



**Maarten van den Bergh**  
Maarten van den Bergh, a Dutch national, was appointed to the Board on 1 September 2000. He retired in 2000 as president of the Royal Dutch Petroleum Company and vice chairman of its committee of managing directors. Aged 61.  
**Other appointments:** chairman of Lloyds TSB Group; non-executive director of British Airways and Royal Dutch Petroleum Company.  
B C D F\*



**John Nelson**  
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. Aged 55.  
**Other appointments:** deputy chairman of Kingfisher.  
B D F



**The Rt. Hon. Baroness Jay of Paddington PC**  
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, and Minister of State at the Department of Health. Aged 63.  
**Other appointments:** non-executive director of Independent News & Media UK; chairman of the Overseas Development Institute.  
C E



**Carl G Symon**  
Carl Symon, a US national, was appointed to the Board on 14 January 2002. He is managing director, global business development, DiamondCluster International Inc., having formerly been chairman and chief executive of IBM UK. Aged 57.  
**Other appointments:** non-executive director of Rolls-Royce; vice chairman of Cross Atlantic Capital Partners.  
B C



**Clayton Brendish**  
Clay Brendish was appointed to the Board on 1 September 2002. He retired in 2001 as executive deputy chairman of CMG, having joined its board when it acquired Admiral, of which he was co-founder and executive chairman. Aged 56.  
**Other appointments:** non-executive chairman of Beacon Investment Fund; non-executive director of Elexon and Herald Investment Trust; trustee of Economist Newspapers and Foundation for Liver Research.  
B E

### 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

## Summary directors' report

### Principal activities

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. In the UK, we serve over 20 million business and residential customers with more than 29 million exchange lines, as well as providing network services to other licensed operators. BT consists principally of three lines of business: BT Retail, BT Wholesale and BT Global Services. Details of our businesses and performance are given on pages 14 and 15 of this Annual Review and summary financial statement.

### Dividends

An interim dividend of 2.25 pence per share (2002: nil) was paid on 10 February 2003. The directors recommend a final dividend of 4.25 pence per share (2002: 2.0p) to be paid on 8 September 2003 to shareholders on the register at the close of business on 8 August 2003. This makes a total dividend for the year of 6.5 pence per share (2002: 2.0p).

### Directors

Details of the current members of the Board are shown on page 18. All served throughout the financial year, with the exception of Ian Livingston and Clayton Brendish, who joined the Board on 8 April and 1 September 2002, respectively. In addition, Philip Hampton served as a director until his retirement on 30 April 2002.

Sir Anthony Greener, Louis Hughes and Maarten van den Bergh retire from the Board by rotation. Being eligible, they offer themselves for re-election at the Annual General Meeting. Sir Anthony Greener and Maarten van den Bergh's contracts are terminable by either party on 12 months' notice after the initial period. Louis Hughes's contract is terminable on three months' notice.

### Annual General Meeting

The Notice of the Annual General Meeting to be held at 10.30 am in Barbican Hall at the Barbican Centre, London on 16 July 2003 is contained in a circular, which is sent to shareholders with this Review.

## Corporate governance

BT's policy is to achieve best practice in our standards of business integrity for all our operations. This includes a commitment to maintaining the highest standards of corporate governance throughout the group. The directors consider that BT has, throughout the year, complied with the provisions of the Combined Code on Corporate Governance published by the UK Listing Authority.

### Board and committee structure

The Board, which operates as a single team, is made up currently of the part-time Chairman, five executive and seven independent non-executive directors. It meets every month, except in August. Its principal focus is the overall strategic direction, development and control of the group.

The non-executive directors provide a strong independent element on the Board. Sir Anthony Greener, the Deputy Chairman, is the senior independent director. The non-executive directors bring experience and independent judgement, gained at the most senior levels, of international business operations and strategy, marketing, technology, communications and political and international affairs.

The principal Board committees are the:

- Audit Committee\*
- Remuneration Committee\*
- Nominating Committee
- Operating Committee

\*Comprising solely independent non-executive directors.

### 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 misstatements or loss.

Risk assessment and evaluation takes place as an integral part of the group's annual strategic planning cycle. The group has a detailed risk management process which identifies the key risks facing the group and each business unit. These processes have been in place for the whole of the 2003 financial year and have continued up to the date on which this document was approved.

### Going concern

The company's financial statements for the year ended 31 March 2003 have been prepared on a going concern basis as, after making appropriate enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future.

# Summary report on directors' remuneration

## Introduction

This is a summary of the full Report on directors' remuneration in the Annual Report and Form 20-F 2003, a copy of which is available on request or at [www.bt.com/investorcentre](http://www.bt.com/investorcentre). The full report will be voted on at the 2003 Annual General Meeting.

## Remuneration Committee

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

## Remuneration policy for executives

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

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

## Main components of remuneration

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

### Basic salary

This is reviewed annually. Basic salaries remained unchanged during the 2003 financial year and the Committee decided that there should be no increase in base pay for the 2004 financial year.

### Performance-related remuneration

- **annual bonus** – the annual bonus plan is designed to reward the achievement of results against set objectives. Targets, set at the beginning of the 2003 financial year for each objective, were based on earnings per share, cash flow and customer satisfaction.
- **deferred bonus** – awards in the form of BT shares granted under the Deferred Bonus Plan are linked to the value of the executive's annual bonus. The shares are held in trust for three years.
- **long-term incentives** – the BT Equity Incentive Portfolio is designed to ensure that equity participation is a significant part of overall remuneration. It comprises:

*share options* – options granted in the 2003 financial year will be exercisable in three years only if a performance target relating to total shareholder return (TSR) is met. At the end of the three-year period, BT's TSR performance must be in the upper

quartile of FTSE 100 companies for the options to be fully exercisable.

*incentive shares* – no award of incentive shares was made in the 2003 financial year.

*retention shares* – these are granted in exceptional circumstances to help recruit or retain individuals with critical skills.

See the tables alongside for details of directors' remuneration and interests in shares.

## Pension arrangements

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

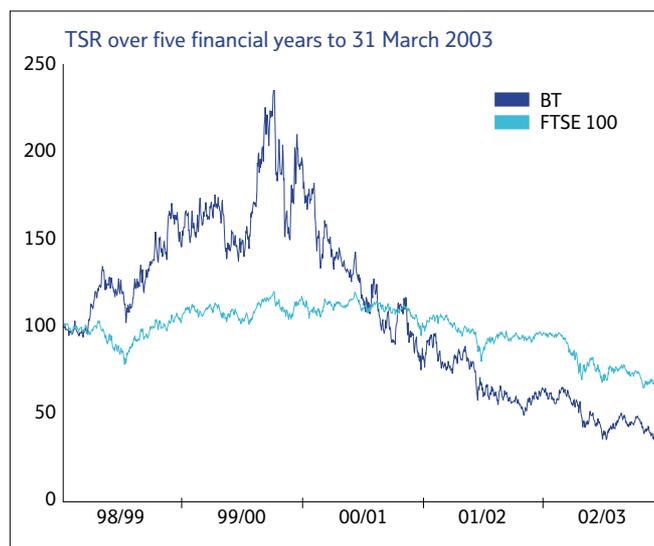
Executive directors and most other senior executives who joined the company prior to 1 April 2001 receive pension benefits of one-thirtieth of final salary for each year of service. Those with longer BT service have undertakings of pension benefits of two-thirds of final salary payable at normal retirement age.

Retirement provision for executive directors and other senior executives who joined BT after 31 March 2001 is generally made on a defined contribution basis – the company agrees to pay a fixed percentage (typically 20-30%) of the executive's salary each year towards the provision of retirement benefits.

## Other benefits

Other benefits include some or all of company car, health insurance in the event of permanent incapacity, personal telecommunications facilities, medical and dental cover, and financial counselling.

## BT's total shareholder return (TSR) performance



1 April 1998 = 100. Source: Datastream

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

## Directors' remuneration

The remuneration of the directors for the year ended 31 March 2003 and the benefits received under the long-term incentive plans were, in summary, as follows:

	Total 2003 £'000
Salaries (includes amounts in note (2) below)	3,212
Performance-related and special bonus	2,309
Deferred bonus in shares	1,484
Other benefits	644
	<b>7,649</b>
Payments to non-executive directors	294
Total emoluments (excludes amounts in note (4) below)	<b>7,943</b>
Gain on the exercise of share options	–
Value of shares vested under the Executive Share Plans	411

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

	Basic salary and fees £'000	Annual bonus £'000	Benefits excluding pension £'000	Sub-total £'000	Other (2)(3)(4) £'000	Total 2003 £'000
Sir Christopher Bland	500	–	12	512	–	512
B Verwaayen <sup>(1)(2)</sup>	700	849	485	2,034	140	2,174
P Danon <sup>(1)</sup>	450	338	41	829	–	829
A Green <sup>(1)</sup>	425	306	30	761	–	761
I Livingston <sup>(1)(2)(3)</sup>	445	338	27	810	306	1,116
Dr P Reynolds <sup>(1)</sup>	400	288	44	732	–	732
Sir Anthony Greener	90	–	–	90	–	90
M van den Bergh	40	–	–	40	–	40
C Brendish	20	–	–	20	–	20
L R Hughes	37	–	–	37	–	37
Baroness Jay	35	–	–	35	–	35
J F Nelson	35	–	–	35	–	35
C G Symon	37	–	–	37	–	37
P Hampton <sup>(4)</sup>	36	–	5	41	242	283
	<b>3,250</b>	<b>2,119</b>	<b>644</b>	<b>6,013</b>	<b>688</b>	<b>6,701<sup>(1)</sup></b>

### Pensions

Sir Christopher Bland is not a member of any of the company's pension schemes but the company matches his contributions, up to 10% of the earnings cap, to a personal pension plan. B Verwaayen and I Livingston are not members of any of the company's pension schemes but the company has agreed to pay an amount equal to 20% and 30% of salary, respectively, towards pension provision. The aggregate value of contributions paid, or treated as paid, to defined contribution schemes in the 2003 financial year was £53,460. P Danon, A Green and P Reynolds are members of the BT Pension Scheme. As he is subject to the earnings cap, the company has agreed to increase P Danon's benefits by means of a non-approved, unfunded arrangement. Additional days of pensionable service are being purchased for A Green and P Reynolds to bring their pensionable service at age 60 up to 40 years.

### Notes

- (1) In addition, deferred bonuses payable in shares in three years' time were awarded to B Verwaayen (£849,000), P Danon (£169,000), A Green (£153,000), I Livingston (£169,000) and P Reynolds (£144,000).
- (2) Part of the pension allowance of 20% of salary for B Verwaayen (£140,000) and 30% of salary for I Livingston (£116,000) was paid to them direct.
- (3) I Livingston received the sum of £190,000 in lieu of the bonus to which he would have been entitled had he remained with his previous employer.
- (4) On the terms of his leaving the company on 30 April 2002, a termination payment of £217,500 was made to P Hampton, equivalent to the balance of the initial period of his service contract, together with a sum of £9,000 in respect of benefits for that period. He also received £15,500 in lieu of holiday entitlement.

## Summary of directors' interests in shares and share plans

as at 31 March 2003

	Beneficial shareholdings <sup>(a)</sup>	Number of shares under option <sup>(b)</sup>	Share awards <sup>(c)</sup>	Retention shares <sup>(d)</sup>	Deferred bonus awards <sup>(e)</sup>
Sir Christopher Bland	673,876	314,244	318,308	–	–
B Verwaayen	387,876	2,618,451	–	799,754	76,996
P Danon	61,228	962,580	278,897	53,253	98,275
A Green	85,729	912,005	341,144	–	106,757
I Livingston	110,444	969,870	–	618,093	–
Dr P Reynolds	43,223	860,175	219,354	–	82,822
Sir Anthony Greener	11,167	–	–	–	–
M van den Bergh	4,800	–	–	–	–
C Brendish	10,920	–	–	–	–
L R Hughes	6,800	–	–	–	–
Baroness Jay	5,572	–	–	–	–
J F Nelson	50,000	–	–	–	–
C G Symon	10,069	–	–	–	–
	<b>1,461,704</b>	<b>6,637,325</b>	<b>1,157,703</b>	<b>1,471,100</b>	<b>364,850</b>

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

### Notes

- (a) Beneficial shareholdings include shares held in the director's own name or by close family members.
- (b) Options granted under the Global Share Option Plan are normally exercisable in full between the third and tenth anniversaries of their date of grant only if a corporate performance target has been met. Option prices range between 187p and 318p.
- (c) Share awards granted under the Incentive Share Plan and the Executive Share Plan vest in full after three, or five, years only if a corporate performance target has been met.
- (d) Retention shares are used as a recruitment and retention tool. They are held in trust for up to three years and are transferred to participants, if they are still employed by the company.
- (e) Awards of shares are linked to the value of annual bonuses. The shares are held in trust for three years and are transferred to participants, if they are still employed by the company.

# Shareholder information

## Electronic communication

Increasingly, shareholders are discovering the convenience of using the internet and e-mail to find out about their shareholdings and about BT.

### Internet

There's a wealth of constantly updated information about BT at [www.bt.com](http://www.bt.com), and our Investor Centre at [www.bt.com/investorcentre](http://www.bt.com/investorcentre) has information of particular interest to our shareholders.

### Annual Review online

Using Lloyds TSB Registrars' Shareview service, you can now choose to receive shareholder publications, including the Annual Review, electronically – rather than by post. Instead, you'll receive an e-mail alert each time we place a new publication for shareholders on our website.

### Shareview

Shareview enables you to:

- access your shareholdings and see any recent sales, purchases or transfers
- build and manage a full portfolio of your shares online
- obtain indicative prices for your shares
- appoint a proxy to represent you at company meetings.

### 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 account number, which is shown on the enclosed proxy card and also on your share certificate(s). You will be asked to choose a secret PIN.
3. Once you have registered, you will be sent a user ID by post. You can then use your user ID and PIN to get secure access to Shareview whenever you like.

### ShareholderPlus

To encourage more shareholders to sign up for electronic communication, we have launched ShareholderPlus, a scheme offering discounts on products and services from BT and a range of partner companies.

If you want to take advantage of these special arrangements but have not yet signed up for e-communication, please either go to [www.bt.com/signup](http://www.bt.com/signup) and follow the online instructions, or call Freefone 0808 100 4141 and talk to one of our helpline operators. You will need to have your shareholder account number with you.

If you have already signed up for e-communication and now wish to sample the benefits of ShareholderPlus and take advantage of these special arrangements, please go to [www.bt.com/shareholderplus](http://www.bt.com/shareholderplus).

### Shareholder enquiries

As well as e-communication, there are a number of other ways in which you can find out about BT and your shareholding.

Full details are given on the shareholder information pages of the 2003 Notice of Annual General Meeting, which is enclosed with this Annual Review.

For general enquiries, please contact the Shareholder Helpline on Freefone 0808 100 4141 (+44 121 433 4404 from outside the UK) or by e-mail at [bt@lloydtsb-registrars.co.uk](mailto:bt@lloydtsb-registrars.co.uk).

### Consumer services

Further information about the services for residential customers featured in this Review is available as follows:

- BT Together – Dial 0800 800 150 or visit [www.bt.com/together](http://www.bt.com/together)
- BT Broadband – Dial 0800 800 060 or visit [www.bt.com/btbroadband](http://www.bt.com/btbroadband)
- BT Openworld internet access services – visit [www.btopenworld.com/broadband](http://www.btopenworld.com/broadband)
- BT Home Computing – Dial 0800 800 832 or visit [www.bt.com/homecomputing](http://www.bt.com/homecomputing)

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

### Business services

For more information on business services and solutions, contact us on 0800 400 400 or visit [www.bt.com/business](http://www.bt.com/business).

### 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 2003 Notice of Annual General Meeting, please contact the Shareholder Helpline (see above).



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