

## *Chairman's statement*

**The 1998 financial year proved to be a very important chapter in the BT story, even if not quite in the way we anticipated 12 months ago.**

This time last year, we expected that there was a good chance that our prospective merger with MCI Communications Corporation would be completed by the end of the calendar year. In the event, of course, this did not happen. WorldCom tabled a considerably higher bid for MCI and we did not feel that it would be in shareholders' best interests to match it.

In our view, the preferable course was to accept the offer WorldCom made for our 20 per cent holding in MCI. On completion of the MCI/WorldCom merger, BT will receive around US\$7 billion (more than £4 billion). This, added to the break-up fee and expenses, represents over US\$54 per share for a holding we acquired for just over US\$32 per share in 1994. As I write, the MCI/WorldCom merger is awaiting regulatory clearance in the USA and Europe.

Nor has the success of Concert Communications Services, our joint venture with MCI, been compromised. Indeed, Concert has continued to lead the world in providing global managed network services to multinational customers. MCI WorldCom will, for a period, have non-exclusive rights to distribute Concert products in the USA. Beyond that, we shall ensure that enduring distribution arrangements are put in place for the longer term.

In other important respects, this has been a good year for your company – both in the UK and in other markets around the world.

Turnover has grown by 4.7 per cent and we have seen strong growth in demand. Customers have benefited from sound quality of service, price cuts worth over £750 million in the year, and a range of new and exciting services. Our Internet-related business is growing fast and we are seeing considerable demand for second lines and ISDN connections. We have also announced a major upgrade to our broadband network to match the ever-increasing volumes of data we are required to carry.

Earnings per share were 26.7 pence and I am pleased to report a final dividend for the year of 11.45 pence per share, which brings the total dividend for the year to 19 pence per share, which is as forecast. This represents an increase of 6.4 per cent on last year, adjusted to take account of the special dividend that we paid in September 1997.

Relations with the new Government have been good. Notwithstanding the so-called "Windfall Tax", which we did not and do not believe was appropriate to BT, the Government's interest in the social and economic benefits that information technology can bring is clear and undiminished. We are proud to support the Government's New Deal welfare-to-work initiative, and have been a key player in developing the "national grid for learning" in the UK.

Outside the UK, liberalisation has been gathering momentum. The World Trade Organisation is committed to opening telecommunications markets; and, in Europe, give or take the odd derogation, there has been full competition in the market since 1 January 1998. BT has now established a presence throughout the European Union, and we are engaged in turning long-awaited opportunities into action, across the world.

Our capacity to address such opportunities and to meet the challenges of change depends to a great extent on the skills and commitment of our employees and I thank all BT people for the continued dedication which they have shown to the company over the year.

In a word, we have the right people, the right strategy and the right positioning for success. And we aim to continue to translate that strategy into long-term shareholder value.

I also wish to pay tribute to those directors who retired from the Board during the year, Birgit Breuel, Yve Newbold, Bert Roberts Jnr, Dr Alan Rudge and Gerald Taylor, each of whom made a much appreciated and distinctive contribution to the company's progress during their term of office.

We are pleased to welcome our new non-executive directors, Helen Alexander and Neville Isdell, to our Board. We also welcome Sir John Weston, who will join the Board in the autumn.

In a break with tradition, I would like to close this Chairman's statement on a personal note. I announced earlier this year that, with effect from 31 July, I will become part-time Chairman, having been fortunate enough to serve as your company's full-time, executive Chairman for over ten years.

BT now has a strong and experienced senior management team in place, under the leadership of Chief Executive, Sir Peter Bonfield. There is no longer a need for two full-time executives at the helm.

That said, I shall continue to play a full part in the life of the company and I can assure you that my personal commitment to BT and to the industry is undiminished.

## Financial highlights

FOR THE YEAR ENDED 31 MARCH 1998

	1998	1997	1996
<b>Turnover</b>	<b>£15,640m</b>	£14,935m	£14,446m
<b>MCI break-up fee net of expenses</b>	<b>£238m</b>	–	–
<b>Operating profit</b>	<b>£3,657m</b>	£3,245m	£3,100m
<b>Profit before taxation</b>	<b>£3,219m</b>	£3,203m	£3,019m
<b>Windfall tax charge</b>	<b>£510m</b>	–	–
<b>Profit after taxation</b>	<b>£1,731m</b>	£2,101m	£1,992m
<b>Earnings per share</b>	<b>26.7p</b>	32.8p	31.6p
<b>Earnings per share before exceptional items</b>	<b>31.7p</b>	32.8p	31.6p
<b>Dividends per share – ordinary</b>	<b>19.00p</b>	19.85p	18.70p
<b>– special</b>	<b>–</b>	35.00p	–
<b>Net cash flow from operating activities</b>	<b>£6,076m</b>	£6,192m	£5,834m
<b>Capital expenditure</b>	<b>£3,030m</b>	£2,719m	£2,771m

*Iain Vallance*

**Sir Iain Vallance**

*Chairman*

26 MAY 1998

