

# Group profit and loss account

FOR THE YEAR ENDED 31 MARCH 1999

	Notes	Before exceptional items 1999 £m	Exceptional items 1999 £m	After exceptional items 1999 £m	1998 £m	1997 £m
<b>Total turnover – ongoing activities</b>	2	<b>18,223</b>	–	<b>18,223</b>	16,039	15,021
– discontinued activities	2	–	–	–	1,372	2,358
Total turnover, including discontinued activities	2	<b>18,223</b>	–	<b>18,223</b>	17,411	17,379
Group's share of joint ventures' turnover	2	<b>(561)</b>	–	<b>(561)</b>	(147)	(80)
Group's share of associates' turnover	2	<b>(709)</b>	–	<b>(709)</b>	(1,624)	(2,364)
<b>Group turnover – ongoing activities</b>	2	<b>16,953</b>	–	<b>16,953</b>	15,640	14,935
Other operating income (a)	3	<b>168</b>	–	<b>168</b>	372	106
Operating costs	4	<b>(13,236)</b>	<b>(69)</b>	<b>(13,305)</b>	(12,355)	(11,796)
Group operating profit – ongoing activities		<b>3,885</b>	<b>(69)</b>	<b>3,816</b>	3,657	3,245
Group's share of operating loss of joint ventures	5	<b>(342)</b>	–	<b>(342)</b>	(199)	(36)
Group's share of operating profit (loss) of associates	5	–	–	–	3	220
Total operating profit:						
Ongoing activities		<b>3,543</b>	<b>(69)</b>	<b>3,474</b>	3,436	3,209
Discontinued activities		–	–	–	25	220
		<b>3,543</b>	<b>(69)</b>	<b>3,474</b>	3,461	3,429
Profit on sale of fixed asset investments	6	–	<b>1,107</b>	<b>1,107</b>	–	–
Profit on sale of group undertakings	6	–	–	–	63	8
Interest receivable	7	<b>165</b>	–	<b>165</b>	162	209
Interest payable	8	<b>(451)</b>	–	<b>(451)</b>	(472)	(383)
Premium on repurchase of bonds	9	–	–	–	–	(60)
<b>Profit on ordinary activities before taxation</b>		<b>3,257</b>	<b>1,038</b>	<b>4,295</b>	3,214	3,203
Tax on profit on ordinary activities:						
Corporation and similar taxes	10	<b>(1,002)</b>	<b>(291)</b>	<b>(1,293)</b>	(977)	(1,102)
Windfall tax	10	–	–	–	(510)	–
		<b>(1,002)</b>	<b>(291)</b>	<b>(1,293)</b>	(1,487)	(1,102)
<b>Profit on ordinary activities after taxation</b>		<b>2,255</b>	<b>747</b>	<b>3,002</b>	1,727	2,101
Minority interests	11	<b>(19)</b>	–	<b>(19)</b>	(25)	(24)
Profit for the financial year		<b>2,236</b>	<b>747</b>	<b>2,983</b>	1,702	2,077
Dividends:						
Ordinary	12			<b>(1,322)</b>	(1,216)	(1,266)
Special	12			–	–	(2,244)
				<b>(1,322)</b>	(1,216)	(3,510)
<b>Retained profit (transfer from reserves) for the financial year</b>	26			<b>1,661</b>	486	(1,433)
<b>Basic earnings per share</b>	13			<b>46.3p</b>	26.6p	32.8p
<b>Basic earnings per share before exceptional items</b>	13			<b>34.7p</b>	31.7p	32.8p
<b>Diluted earnings per share</b>	13			<b>45.3p</b>	26.2p	32.2p
<b>Diluted earnings per share before exceptional items</b>	13			<b>34.0p</b>	31.2p	32.2p
(a) Including MCI break up fee net of expenses				–	238	–

# Group statement of total recognised gains and losses

FOR THE YEAR ENDED 31 MARCH 1999

	<b>1999</b>	1998	1997
	<b>£m</b>	£m	£m
Profit (loss) for the financial year:			
Group	<b>3,362</b>	1,951	1,987
Joint ventures	<b>(362)</b>	(202)	(38)
Associates	<b>(17)</b>	(47)	128
Total profit for the financial year	<b>2,983</b>	1,702	2,077
Currency movements arising on consolidation of foreign subsidiaries, joint ventures and associates	<b>45</b>	(74)	(76)
<b>Total recognised gains and losses for the financial year</b>	<b>3,028</b>	1,628	2,001

# Group cash flow statement

FOR THE YEAR ENDED 31 MARCH 1999

	<i>Notes</i>	<b>1999</b> £m	1998 £m	1997 £m
<b>Net cash inflow from operating activities</b>	<i>14</i>	<b>6,035</b>	6,071	6,185
<b>Dividends from joint ventures and associates</b>		<b>2</b>	5	7
<b>Returns on investments and servicing of finance</b>				
Interest received		<b>111</b>	168	196
Interest paid, including finance costs		<b>(439)</b>	(328)	(342)
Premium paid on repurchase of bonds		<b>-</b>	-	(60)
Dividends paid to minorities		<b>-</b>	-	(14)
<b>Net cash outflow for returns on investments and servicing of finance</b>		<b>(328)</b>	(160)	(220)
<b>Taxation</b>				
UK corporation tax paid		<b>(359)</b>	(1,625)	(1,032)
Windfall tax paid		<b>(255)</b>	(255)	-
Overseas tax paid		<b>(16)</b>	(6)	(13)
<b>Tax paid</b>		<b>(630)</b>	(1,886)	(1,045)
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets		<b>(3,220)</b>	(3,020)	(2,823)
Sale of tangible fixed assets		<b>143</b>	127	124
Purchase of fixed asset investments		<b>(103)</b>	(265)	(172)
Disposal of fixed asset investments		<b>4,226</b>	50	51
<b>Net cash inflow (outflow) for capital expenditure and financial investment</b>		<b>1,046</b>	(3,108)	(2,820)
<b>Acquisitions and disposals</b>				
Purchase of subsidiary undertakings, net of £5m overdraft (1998 – £6m, 1997 – £2m cash acquired)		<b>(672)</b>	(121)	(126)
Investments in joint ventures		<b>(1,038)</b>	(323)	(131)
Investments in associates		<b>(288)</b>	(1,057)	(17)
Sale of subsidiary undertakings		<b>14</b>	-	11
Sale of investments in joint ventures and associates		<b>17</b>	-	11
<b>Net cash outflow for acquisitions and disposals</b>		<b>(1,967)</b>	(1,501)	(252)
<b>Equity dividends paid</b>		<b>(1,186)</b>	(3,473)	(1,217)
Cash inflow (outflow) before management of liquid resources and financing		<b>2,972</b>	(4,052)	638
<b>Management of liquid resources</b>	<i>15</i>	<b>(2,447)</b>	2,247	(504)
<b>Financing</b>				
Issue of ordinary share capital		<b>161</b>	144	160
Minority shares issued		<b>13</b>	48	51
New loans		<b>10</b>	1,637	35
Loan repayments		<b>(457)</b>	(338)	(670)
Net increase (decrease) in short-term borrowings		<b>(185)</b>	303	200
<b>Net cash inflow (outflow) from financing</b>		<b>(458)</b>	1,794	(224)
<b>Increase (decrease) in cash in the year</b>		<b>67</b>	(11)	(90)
<b>Decrease (increase) in net debt in the year</b>	<i>16</i>	<b>3,146</b>	(3,860)	849

# Balance sheets

AT 31 MARCH 1999

	Notes	Group		Company	
		1999 £m	1998 £m	1999 £m	1998 £m
<b>Fixed assets</b>					
Intangible assets	17	742	-	-	-
Tangible assets	18	17,854	17,252	15,022	14,899
Investments in joint ventures:	19				
Share of gross assets and goodwill		1,857	524		
Share of gross liabilities		(775)	(274)		
		1,082	250		
Investments in associates	19	418	143		
Other investments	19	332	1,315		
Total investments	19	1,832	1,708	12,371	7,808
<b>Total fixed assets</b>		<b>20,428</b>	<b>18,960</b>	<b>27,393</b>	<b>22,707</b>
<b>Current assets</b>					
Stocks		159	145	134	124
Debtors	20	3,995	3,387	5,976	4,918
Investments	21	3,278	731	1,897	15
Cash at bank and in hand		102	62	7	1
<b>Total current assets</b>		<b>7,534</b>	<b>4,325</b>	<b>8,014</b>	<b>5,058</b>
<b>Creditors: amounts falling due within one year</b>					
Loans and other borrowings	22	947	881	7,250	3,282
Other creditors	23	7,082	6,081	7,008	6,043
<b>Total creditors: amounts falling due within one year</b>		<b>8,029</b>	<b>6,962</b>	<b>14,258</b>	<b>9,325</b>
<b>Net current liabilities</b>		<b>(495)</b>	<b>(2,637)</b>	<b>(6,244)</b>	<b>(4,267)</b>
<b>Total assets less current liabilities</b>		<b>19,933</b>	<b>16,323</b>	<b>21,149</b>	<b>18,440</b>
<b>Creditors: amounts falling due after more than one year</b>					
Loans and other borrowings	22	3,386	3,889	4,289	4,126
<b>Provisions for liabilities and charges</b>	24	<b>1,391</b>	<b>1,426</b>	<b>1,116</b>	<b>1,269</b>
<b>Minority interests</b>		<b>216</b>	<b>223</b>	<b>-</b>	<b>-</b>
<b>Capital and reserves</b>					
Called up share capital	25	1,617	1,603	1,617	1,603
Share premium account	26	1,206	892	1,206	892
Other reserves	26	774	776	747	749
Profit and loss account	26	11,343	7,514	12,174	9,801
<b>Total equity shareholders' funds</b>	26	<b>14,940</b>	<b>10,785</b>	<b>15,744</b>	<b>13,045</b>
		<b>19,933</b>	<b>16,323</b>	<b>21,149</b>	<b>18,440</b>

Debtors include amounts receivable after more than one year: group £nil (1998 – £97m) and company £nil (1998 – £213m).

The financial statements on pages 59 to 103 were approved by the board of directors on 25 May 1999 and were signed on its behalf by

**Sir Iain Vallance** *Chairman*

**Sir Peter Bonfield CBE** *Chief Executive*

**R P Brace** *Group Finance Director*

# Notes to the financial statements

## 1. Changes in accounting policies and presentation

During the year ended 31 March 1999, the company has made a number of changes in its accounting policies and in the presentation of its financial statements, mainly impacted by the requirement to implement new UK Financial Reporting Standards (FRSs). These changes are summarised as follows:

### (a) FRS9 – Associates and joint ventures

The group's share of its associates' and joint ventures' turnover is included in the profit and loss account in memorandum form. The group's share of their operating results is shown separately in the profit and loss account and the group's share of their interest charges and income is included with the respective group figures; formerly these shares were presented as one net figure.

In the cash flow statement, dividends from associates and joint ventures are shown on a separate line, whereas formerly these dividends were included within net cash inflow from operating activities.

In the group balance sheet, the group's investments are analysed between associates, joint ventures and other investments and the group's shares of its joint ventures' gross assets and liabilities are also disclosed; formerly the investments were presented as one figure.

Prior years' figures have been restated for FRS9.

### (b) FRS10 – Goodwill and intangible assets

Goodwill arising on acquisitions completed on or after 1 April 1998 is being capitalised and, in most cases, amortised over its useful economic life. Where special circumstances exist such that amortising goodwill over a finite period would not give a true and fair view, that goodwill is not amortised. Goodwill arising on acquisitions completed on or before 31 March 1998 are continuing to be accounted for under the group's previous accounting policy which was to write the goodwill off to reserves on acquisition. Prior years' figures have not had to be restated for FRS10.

### (c) FRS11 – Impairment of fixed assets and goodwill

Where indications of impairment have become apparent, the group has reviewed the carrying value of the relevant assets but no significant impairment losses have been incurred. Previously losses on fixed assets would have been recognised only when a permanent diminution in value had become apparent.

### (d) FRS12 – Provisions, contingent liabilities and contingent assets

Provisions for liabilities, with some exceptions – in particular those for pension costs and deferred taxes – may now only be made when the group has a legal or constructive obligation at the balance sheet date. Previously, provisions were made when the directors considered them to be required. A review has been made of the group's relevant provisions and no significant adjustment was found to be necessary.

Liabilities covered by insurance recoveries are now presented in the balance sheet on a gross basis; previously they were presented net of the insurance recovery. The balance sheet at 31 March 1998 has not been restated for FRS12 as the amounts involved are not significant.

### (e) FRS13 – Derivatives and other financial instruments – disclosures

The main disclosures required by FRS13 are contained in note 33. Some of the information in this note may be found to overlap with information in other notes impacted by other accounting disclosure requirements.

### (f) FRS14 – Earnings per share

Earnings per share on both a basic and diluted basis are calculated in accordance with FRS14 and presented in the financial statements. There has been an insignificant effect on the group's previously reported undiluted earnings per share. The FRS amended UITF Abstract 13 which has resulted in an insignificant change in policy for recognising dividends on the company's shares held in employee trusts. Under the revised policy, these dividends are neither accrued nor recognised as interest and other similar income, whereas they were previously. These dividends are now shown as an addition to investments when reinvested in more of the company's shares.

### (g) Computer software capitalisation

From 1 April 1998, the group has capitalised the cost of computer software for its non-network systems thereby bringing the policy into line with that for its network systems. It has not been practical to restate prior year figures.

### (h) Turnover

The previous analysis of turnover has been modified in light of the group's emerging fast growing activities. The comparative figures in note 2 have been restated and include the group's share of continuing associates and joint ventures.

### (i) Segmented results

The group is not required to present segmented results under SSAP25 as it is a unitary business. However, under US accounting standard SFAS No. 131, the company is required to present segmented results based on information presented to the group's senior management. This information, which is set out in note 35, is presented for the first time.

<b>2. Turnover</b>	<b>1999 £m</b>	1998 £m	1997 £m
Inland calls	<b>5,178</b>	4,924	4,874
Exchange lines	<b>3,337</b>	3,180	3,033
International calls	<b>1,501</b>	1,553	1,809
Mobile communications	<b>1,400</b>	1,089	949
Private circuits	<b>1,165</b>	1,149	1,124
Customer premises equipment supply	<b>870</b>	896	914
Receipts from UK operators	<b>645</b>	496	319
Yellow Pages and other directories	<b>491</b>	466	438
Other UK sales and services	<b>1,770</b>	1,332	994
Non-UK operations	<b>596</b>	555	481
Group turnover – ongoing activities	<b>16,953</b>	15,640	14,935
Group's share of associates' and joint ventures' turnover	<b>1,270</b>	1,771	2,444
Total turnover, including discontinued activities	<b>18,223</b>	17,411	17,379
Less: discontinued activities (a)	–	(1,372)	(2,358)
Total turnover – ongoing activities	<b>18,223</b>	16,039	15,021

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

Joint ventures – continuing activities	<b>561</b>	147	80
Associates:			
Continuing activities	<b>709</b>	252	6
Discontinued activities (a)	–	1,372	2,358
	<b>709</b>	1,624	2,364
Group's share of associates' and joint ventures' turnover	<b>1,270</b>	1,771	2,444

(a) Discontinued activities relate to the group's former interest in MCI (note 19(c)).

The group provides telecommunication services, principally in the United Kingdom, essentially operating as a unitary business. Its main services and products are local and national telephone calls in the United Kingdom, the provision of telephone exchange lines to homes and businesses, international telephone calls made to and from the United Kingdom, the supply of mobile communication services and equipment to businesses and individuals, the provision of private circuits to businesses and the supply of telecommunication equipment for customers' premises.

Approximately 4% (1998 – 4%, 1997 – 3%) of group turnover arose from operations outside the United Kingdom.

Unaudited information concerning the group's classified directory business in the UK is shown on page 107 of this annual report.

<b>3. Other operating income</b>	<b>1999 £m</b>	1998 £m	1997 £m
Merger agreement break up fee (a)	–	273	–
Merger expenses written off	–	(35)	–
Other	<b>168</b>	134	106
Total other operating income	<b>168</b>	372	106

(a) The company received US\$465 million on 12 November 1997 from WorldCom, Inc as a break up fee and partial reimbursement of expenses (the MCI merger break up fee) following the termination of the BT/MCI merger agreement on 9 November 1997 (note 19 (c)). This income and the associated merger expenses were exceptional items in the year ended 31 March 1998.

<b>4. Operating costs</b>	<b>1999 £m</b>	1998 £m	1997 £m
Staff costs:			
Wages and salaries	<b>3,366</b>	3,290	3,161
Social security costs	<b>275</b>	266	262
Pension costs ( <i>note 28</i> )	<b>176</b>	177	291
Employee share ownership scheme ( <i>a</i> )	<b>64</b>	64	64
Employee share option scheme compensation for special dividend ( <i>b</i> )	<b>-</b>	120	-
<b>Total staff costs</b>	<b>3,881</b>	3,917	3,778
Own work capitalised	<b>(428)</b>	(424)	(399)
Depreciation ( <i>note 18</i> )	<b>2,581</b>	2,395	2,265
Payments to telecommunication operators	<b>2,120</b>	1,600	1,476
Other operating costs ( <i>c</i> )	<b>5,151</b>	4,867	4,676
<b>Total operating costs</b>	<b>13,305</b>	12,355	11,796
Operating costs included the following:			
Research and development	<b>268</b>	307	291
Rental costs relating to operating leases, including plant and equipment hire £9m (1998 – £19m, 1997 – £10m)	<b>185</b>	192	215
Foreign currency (gains) losses	<b>(88)</b>	(9)	(7)
Year 2000 computer issue costs	<b>138</b>	76	1
Exceptional costs relating to the disengagement from MCI:			
Staff costs	<b>10</b>	-	-
Depreciation	<b>13</b>	-	-
Payments to telecommunication operators	<b>14</b>	-	-
Other operating costs	<b>32</b>	-	-
	<b>69</b>	-	-

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

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

(c) Includes redundancy charges of £124m (1998 – £106m, 1997 – £367m). Redundancy charges for the year ended 31 March 1997 included £258m being the cost of providing incremental pension benefits for employees taking early retirement. No charge for these pension benefits was made in the years ended 31 March 1999 and 31 March 1998 in view of the surplus in the BT Pension Scheme disclosed by the most recent actuarial valuation as at 31 December 1996; the previous valuation had shown a deficit.

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

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

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

	1999 £m	1998 £m	1997 £m
Joint ventures – continuing activities	<b>(342)</b>	(199)	(36)
Associates:			
Continuing activities	–	(22)	–
Discontinued activities	–	25	220
	–	3	220
<b>Group's share of operating profit (loss) of associates and joint ventures</b>	<b>(342)</b>	(196)	184

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

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

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

In the years ended 31 March 1999, 1998 and 1997 the subsidiary undertakings disposed of had a negligible effect on the group's operating profit and cash flows and their net assets were immaterial to the group's financial position.

**7. Interest receivable**

	1999 £m	1998(a) £m	1997(a) £m
Income from listed investments	<b>9</b>	11	12
Other interest receivable	<b>150</b>	149	194
<b>Group</b>	<b>159</b>	160	206
Joint ventures	<b>2</b>	–	–
Associates	<b>4</b>	2	3
<b>Total interest receivable</b>	<b>165</b>	162	209

(a) Figures have been restated to include the group's share of its associates' and joint ventures' interest receivable. Income from listed investments for the year ended 31 March 1998 has been restated to exclude £5m dividends from the company's shares held in trust (*note 31*).

**8. Interest payable**

	1999 £m	1998(a) £m	1997(a) £m
Interest payable and similar charges in respect of:			
Bank loans and overdrafts	<b>77</b>	80	76
Other borrowings ( <i>b</i> )	<b>343</b>	334	259
<b>Group</b>	<b>420</b>	414	335
Joint ventures	<b>19</b>	2	–
Associates	<b>12</b>	56	48
<b>Total interest payable</b>	<b>451</b>	472	383

(a) Figures have been restated to include the group's share of its associates' and joint ventures' interest payable.

(b) Includes £7m premium charged in the year ended 31 March 1999 on the early redemption of US\$200m 9½% Guaranteed Debentures 2019 on 16 February 1999.

**9. Premium on repurchase of bonds**

In August 1996, the company repurchased two of the three series of HM Government held bonds then outstanding for £422m at an effective premium of £60m. The final bond series with a face value of £140m was repaid on maturity on 31 March 1997.

<b>10. Tax on profit on ordinary activities</b>	<b>1999</b>	1998	1997
	<b>£m</b>	£m	£m
United Kingdom:			
Corporation tax at 31% (1998 – 31%, 1997 – 33%)	<b>1,200</b>	984	1,135
Deferred taxation charge (credit) at 30% (1998 – 30%, 1997 – 33%)	<b>71</b>	17	(100)
Taxation on the group's share of results of associates	<b>1</b>	1	–
Deferred taxation provision released due to reduction in corporation tax rate	–	(25)	–
Prior year adjustments	–	(2)	1
<b>Total UK taxation, excluding windfall tax</b>	<b>1,272</b>	975	1,036
Overseas taxation:			
Current	<b>14</b>	6	17
Taxation charge on the group's share of results of joint ventures	<b>3</b>	1	2
Taxation charge (credit) on the group's share of results of associates	<b>4</b>	(5)	47
<b>Total corporation and similar taxes</b>	<b>1,293</b>	977	1,102
Windfall tax	–	510	–
<b>Total tax on profit on ordinary activities</b>	<b>1,293</b>	1,487	1,102

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

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

	<b>1999</b>	1998	1997
	<b>%</b>	%	%
UK corporation tax rate	<b>31.0</b>	31.0	33.0
Non-deductible depreciation	<b>0.6</b>	0.6	0.8
Non-deductible overseas losses	<b>1.5</b>	1.1	1.0
Unprovided deferred taxes on excess capital allowances	<b>(0.7)</b>	(0.9)	(0.9)
Effect of reduction in UK corporation tax rate on deferred tax provision	<b>(0.1)</b>	(0.8)	–
Lower effective tax on gain in MCI shares (1998 – MCI merger break up fee)	<b>(2.4)</b>	(0.7)	–
Non-deductible premium on bonds repurchased	–	–	0.4
Other	<b>0.2</b>	0.1	0.1
<b>Effective corporation tax rate</b>	<b>30.1</b>	30.4	34.4

Deferred taxation of £30m (1998 – £30m, 1997 – £28m) arising on excess capital allowances and £nil (1998 – £nil, 1997 – £19m) on profits of associates and joint ventures was not provided in the year ended 31 March 1999.

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

	<b>1999</b>	1998	1997
	<b>£m</b>	£m	£m
Excess capital allowances	<b>1</b>	24	62
Pension provisions	<b>81</b>	20	(103)
Other timing differences	<b>(11)</b>	(27)	(59)
	<b>71</b>	17	(100)
Release due to reduction in corporation tax rate	–	(25)	–
Prior year adjustments (a)	<b>5</b>	(14)	21
<b>Total deferred taxation charge (credit)</b>	<b>76</b>	(22)	(79)

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

<b>11. Minority Interests</b>	<b>1999</b>	1998	1997
	<b>£m</b>	£m	£m
Group	<b>15</b>	25	24
Associates	<b>4</b>	–	–
<b>Total minority interests</b>	<b>19</b>	25	24

<b>12. Dividends</b>	<b>1999</b>	1998	1997	<b>1999</b>	1998	1997
	<b>pence</b>	pence	pence	<b>£m</b>	£m	£m
	<b>per share</b>	per share	per share			
Interim dividend paid	<b>8.10</b>	7.55	7.90	<b>523</b>	480	502
Proposed final dividend	<b>12.30</b>	11.45	11.95	<b>799</b>	736	764
<b>Total ordinary dividends</b>	<b>20.40</b>	19.00	19.85	<b>1,322</b>	1,216	1,266
Special dividend	<b>–</b>	–	35.00	<b>–</b>	–	2,244
<b>Total dividends</b>	<b>20.40</b>	19.00	54.85	<b>1,322</b>	1,216	3,510

**13. Earnings per share**

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

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

The weighted average number of shares in the years were:

	<b>1999</b>	1998	1997
	<b>millions</b>	millions	millions
	<b>of shares</b>	of shares	of shares
Basic	<b>6,442</b>	6,387	6,332
Dilutive ordinary shares from share options outstanding and shares held in trust	<b>150</b>	97	114
<b>Total diluted</b>	<b>6,592</b>	6,484	6,446

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

	<b>1999</b>	1998	1997	<b>1999</b>	1998	1997
	<b>pence</b>	pence	pence	<b>£m</b>	£m	£m
	<b>per share</b>	per share	per share			
MCI merger break up fee received less expenses	<b>–</b>	3.7	–	<b>–</b>	238	–
Profit on sale of MCI shares	<b>17.6</b>	–	–	<b>1,133</b>	–	–
Provision against another fixed asset investment	<b>(0.4)</b>	–	–	<b>(26)</b>	–	–
Costs relating to the disengagement from MCI	<b>(1.1)</b>	–	–	<b>(69)</b>	–	–
	<b>16.1</b>	3.7	–	<b>1,038</b>	238	–
Less tax charge attributable	<b>(4.5)</b>	(0.8)	–	<b>(291)</b>	(50)	–
Windfall tax charge	<b>–</b>	(8.0)	–	<b>–</b>	(510)	–
<b>Net credit (charge)</b>	<b>11.6</b>	(5.1)	–	<b>747</b>	(322)	–
Earnings per share/profit for the financial year after exceptional items	<b>46.3</b>	26.6	32.8	<b>2,983</b>	1,702	2,077
Exceptional charge (credit)	<b>(11.6)</b>	5.1	–	<b>(747)</b>	322	–
<b>Earnings per share/profit for the financial year before exceptional items</b>	<b>34.7</b>	31.7	32.8	<b>2,236</b>	2,024	2,077

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

	1999 £m	1998 £m	1997 £m
<b>14. Reconciliation of operating profit to operating cash flows</b>			
Group operating profit	3,816	3,657	3,245
Depreciation	2,581	2,395	2,265
Decrease (increase) in stocks	(8)	36	31
Increase in debtors	(410)	(29)	(168)
Increase in creditors	388	44	478
Increase (decrease) in provisions	(259)	(47)	321
Other	(73)	15	13
<b>Net cash inflow from operating activities</b>	<b>6,035</b>	<b>6,071</b>	<b>6,185</b>

	1999 £m	1998 £m	1997 £m
<b>15. Management of liquid resources</b>			
Purchase of short-term investments and payments into short-term deposits over 3 months	(2,973)	(1,103)	(2,242)
Sale of short-term investments and withdrawals from short-term deposits over 3 months	1,735	1,334	2,790
Net movement of short-term investments and short-term deposits under 3 months not repayable on demand	(1,209)	2,016	(1,052)
<b>Net cash inflow (outflow) from management of liquid resources</b>	<b>(2,447)</b>	<b>2,247</b>	<b>(504)</b>

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

	At 1 April 1998 £m	Cash flow £m	Other non-cash changes £m	Currency movement £m	At 31 March 1999 £m
<b>16. Net debt</b>					
<b>Analysis of net debt</b>					
Cash in hand and at bank	62	40	-	-	102
Overnight deposits	14	12	-	-	26
Bank overdrafts	(42)	15	-	1	(26)
	34	67	-	1	102
Other current asset investments	717	2,447	(1)	89	3,252
<b>Short-term investments and cash, less bank overdrafts</b>	<b>751</b>	<b>2,514</b>	<b>(1)</b>	<b>90</b>	<b>3,354</b>
Debt due within one year, excluding bank overdrafts	(839)	519	(574)	(27)	(921)
Debt due after one year	(3,889)	113	455	(65)	(3,386)
<b>Total debt, excluding bank overdrafts</b>	<b>(4,728)</b>	<b>632</b>	<b>(119)</b>	<b>(92)</b>	<b>(4,307)</b>
<b>Net debt</b>	<b>(3,977)</b>	<b>3,146</b>	<b>(120)</b>	<b>(2)</b>	<b>(953)</b>

	1999 £m	1998 £m	1997 £m
<b>Reconciliation of net cash flow to movement in net debt</b>			
Increase (decrease) in cash in the year	67	(11)	(90)
Cash (inflow) outflow from (increase) decrease in debt	632	(1,602)	435
Cash (inflow) outflow from (decrease) increase in liquid resources	2,447	(2,247)	504
Decrease (increase) in net debt resulting from cash flows	3,146	(3,860)	849
Currency and translation movements	(2)	79	(47)
Other non-cash movements	(120)	(20)	(30)
Decrease (increase) in net debt in the year	3,024	(3,801)	772
Net debt at 1 April	(3,977)	(176)	(948)
Net debt at 31 March	(953)	(3,977)	(176)

<b>17. Intangible assets</b>	Gross book value £m	Amortisation £m	Net book value £m
At 1 April 1998	–	–	–
Additions	742	–	742
Charge for the year	–	–	–
<b>At 31 March 1999</b>	<b>742</b>	<b>–</b>	<b>742</b>

In September 1998, the group acquired MCI's 24.9% interest in Concert Communications Company (Concert) for £607m. Goodwill of £568m arose on this transaction. This goodwill has not been amortised and Concert is to be transferred into the proposed global venture with AT&T Corp in the year ending 31 March 2000 at a value higher than its current book value including this goodwill. Amortisation for the period would not be material.

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

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

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

<b>18. Tangible fixed assets</b>	Land and buildings (a) £m	Plant and equipment £m	Assets in course of construction £m	Total £m
<b>Group</b>				
<b>Cost</b>				
Balances at 1 April 1998	2,862	28,679	974	32,515
Acquisitions of subsidiary undertakings	3	21	13	37
Additions	23	1,099	2,162	3,284
Transfers	205	1,814	(2,019)	–
Disposals and adjustments	(94)	(1,640)	(9)	(1,743)
<b>Total cost at 31 March 1999</b>	<b>2,999</b>	<b>29,973</b>	<b>1,121</b>	<b>34,093</b>
<b>Depreciation</b>				
Balances at 1 April 1998	1,329	14,002	–	15,331
Acquisitions of subsidiary undertakings	–	11	–	11
Charge for the year	117	2,464	–	2,581
Disposals and adjustments	(71)	(1,560)	–	(1,631)
<b>Total depreciation at 31 March 1999</b>	<b>1,375</b>	<b>14,917</b>	<b>–</b>	<b>16,292</b>
<b>Net book value at 31 March 1999</b>	<b>1,624</b>	<b>15,056</b>	<b>1,121</b>	<b>17,801</b>
Engineering stores	–	–	53	53
<b>Total tangible fixed assets at 31 March 1999</b>	<b>1,624</b>	<b>15,056</b>	<b>1,174</b>	<b>17,854</b>
Net book value at 31 March 1998	1,533	14,677	974	17,184
Engineering stores	–	–	68	68
Total tangible fixed assets at 31 March 1998	1,533	14,677	1,042	17,252

	Land and buildings (a) £m	Plant and equipment £m	Assets in course of construction £m	Total £m
<b>18. Tangible fixed assets</b> (continued)				
<b>Company</b>				
<b>Cost</b>				
Balances at 1 April 1998	901	26,526	821	28,248
Additions	6	463	2,123	2,592
Transfers	121	1,754	(1,875)	–
Disposals and adjustments	(57)	(1,653)	(95)	(1,805)
<b>Total cost at 31 March 1999</b>	<b>971</b>	<b>27,090</b>	<b>974</b>	<b>29,035</b>
<b>Depreciation</b>				
Balances at 1 April 1998	396	13,021	–	13,417
Charge for the year	46	2,195	–	2,241
Disposals and adjustments	(40)	(1,553)	–	(1,593)
<b>Total depreciation at 31 March 1999</b>	<b>402</b>	<b>13,663</b>	<b>–</b>	<b>14,065</b>
<b>Net book value at 31 March 1999</b>	<b>569</b>	<b>13,427</b>	<b>974</b>	<b>14,970</b>
Engineering stores	–	–	52	52
<b>Total tangible fixed assets at 31 March 1999</b>	<b>569</b>	<b>13,427</b>	<b>1,026</b>	<b>15,022</b>
Net book value at 31 March 1998	505	13,505	821	14,831
Engineering stores	–	–	68	68
<b>Total tangible fixed assets at 31 March 1998</b>	<b>505</b>	<b>13,505</b>	<b>889</b>	<b>14,899</b>
		Group		Company
	<b>1999</b>	1998	<b>1999</b>	1998
	<b>£m</b>	£m	<b>£m</b>	£m
(a) The net book value of land and buildings comprised:				
Freehold	<b>1,317</b>	1,281	<b>331</b>	312
Long leases (over 50 years unexpired)	<b>126</b>	92	<b>106</b>	73
Short leases	<b>181</b>	160	<b>132</b>	120
<b>Total net book value of land and buildings</b>	<b>1,624</b>	1,533	<b>569</b>	505
(b) Expenditure on tangible fixed assets comprised:				
				Group
			<b>1999</b>	1998
			<b>£m</b>	£m
Plant and equipment:				
Transmission equipment			<b>1,416</b>	1,219
Exchange equipment			<b>411</b>	512
Other network equipment			<b>558</b>	502
Computers and office equipment			<b>464</b>	372
Motor vehicles and other			<b>230</b>	230
Land and buildings			<b>205</b>	211
Decrease in engineering stores			<b>(15)</b>	(16)
<b>Total expenditure on tangible fixed assets</b>			<b>3,269</b>	3,030



**19. Fixed asset investments** (continued)

(a) Subsidiary undertakings, associates and joint ventures

Details of the principal operating subsidiary undertakings, joint ventures and associates are set out on pages 102 and 103.

	1999 £m	1998 £m
<b>(b) Associates and joint ventures</b>		
Associates:		
Goodwill	227	–
Share of other net assets	191	143
Total – associates	418	143
Joint ventures:		
Goodwill	409	–
Loans	247	151
Share of other net assets	426	99
Total – joint ventures	1,082	250
Net book value at 31 March	1,500	393

(c) MCI Communications Corporation

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

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

As a consequence of the termination of the company's merger agreement with MCI and the company's agreement with WorldCom and MCI, the group ceased treating MCI as an associate on 31 October 1997. The group's share of its associates' results for the year ended 31 March 1998 included a loss before tax of £27m for its share of MCI's results up to that date (1997 – £175m profit).

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

In the period 1 April 1997 to 31 October 1997, the group's turnover with MCI amounted to £108m (1997 – £134m) and in the same period the group purchased £56m (1997 – £87m) in services and products from MCI.

(d) Binariang and LG Telecom

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

The acquisition of the interests in Binariang and LG Telecom comprised:

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

**19. Fixed asset investments** (continued)*(e) Airtel Movil SA*

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

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

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

*(f) Cegetel*

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

The acquisition of the interest in Cegetel comprised:

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

*(g) Other investments*

Other investments include ordinary shares of the company, with a net book value of £18m (1998 – £29m) and a market value of £70m (1998 – £68m), held in trust for the BT Executive Share Plan, the BT Performance Share Plan and the BT Deferred Bonus Plan (*note 31*). Also, in the group balance sheet at 31 March 1999, listed investments were held with a book value of £132m (1998 – £117m) and a market value of £206m (1998 – £154m).

*(h) Subsidiary company acquisition*

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

*(i) Other related party transactions with associates and joint ventures*

In the year ended 31 March 1999, the group's turnover with its other associates and joint ventures amounted to £129m (1998 – £74m, 1997 – £23m) and the group purchased £1m (1998 – £9m, 1997 – £30m) in services and products from these undertakings.

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
<b>20. Debtors</b>				
Trade debtors (a)	<b>2,190</b>	1,801	<b>1,959</b>	1,679
Amounts owed by subsidiary undertakings	–	–	<b>2,294</b>	1,649
Amounts owed by joint ventures (trading)	<b>114</b>	56	<b>114</b>	42
Amounts owed by associates (trading)	<b>16</b>	62	<b>8</b>	15
Other debtors	<b>282</b>	249	<b>278</b>	201
Advance corporation tax recoverable (b)	–	–	–	116
Accrued income	<b>1,209</b>	1,046	<b>1,171</b>	1,014
Prepayments	<b>184</b>	173	<b>152</b>	202
<b>Total debtors</b>	<b>3,995</b>	3,387	<b>5,976</b>	4,918
Total debtors included amounts receivable after more than one year:				
Accrued income	–	97	–	97
Advance corporation tax recoverable (b)	–	–	–	116
<b>Total</b>	–	97	–	213

(a) The group's trade debtors are stated after deducting £262m (1998 – £227m) for doubtful debts. The amount charged to the group profit and loss account for doubtful debts for the year ended 31 March 1999 was £231m (1998 – £218m, 1997 – £188m).

(b) Advance corporation tax recoverable

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Advance corporation tax on final dividend (a)	–	184	–	184
Amount offset against deferred tax provision (note 24)	–	(184)	–	(68)
<b>Balance included within debtors</b>	–	–	–	116

(a) Advance corporation tax is not paid on dividends that are paid after 5 April 1999.

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
<b>21. Current asset investments</b>				
Listed investments	<b>359</b>	150	<b>5</b>	5
Other short-term deposits and investments	<b>2,919</b>	581	<b>1,892</b>	10
<b>Total current asset investments</b>	<b>3,278</b>	731	<b>1,897</b>	15
Market value of listed investments	<b>361</b>	150	<b>5</b>	5

	Average effective interest rates (a) %	Group		Company	
		1999 £m	1998 £m	1999 £m	1998 £m
<b>22. Loans and other borrowings</b>					
US dollar 9 <sup>3</sup> / <sub>8</sub> % guaranteed bonds 1998	7.1	-	149	-	-
US dollar 9 <sup>3</sup> / <sub>8</sub> % guaranteed notes 1999	9.6	-	179	-	-
US dollar 8 <sup>3</sup> / <sub>4</sub> % guaranteed bonds 1999	8.8	<b>124</b>	119	-	-
Zero coupon bonds 2000					
(less unamortised discount £19m (1998 – £38m))	6.9	<b>181</b>	162	<b>181</b>	162
US dollar 6 <sup>3</sup> / <sub>4</sub> % notes 2002					
(less unamortised discount £7m (1997 – £9m))	7.1	<b>922</b>	886	<b>922</b>	886
12 <sup>1</sup> / <sub>4</sub> % bonds 2003	12.3	<b>180</b>	180	<b>180</b>	180
7 <sup>1</sup> / <sub>8</sub> % bonds 2003 (less unamortised discount £3m (1998 – £3m))	7.3	<b>497</b>	497	<b>497</b>	497
12 <sup>1</sup> / <sub>4</sub> % bonds 2006	12.3	<b>229</b>	229	<b>229</b>	229
US dollar 7% notes 2007					
(less unamortised discount £3m (1997 – £3m))	7.1	<b>617</b>	593	<b>617</b>	593
US dollar 9 <sup>5</sup> / <sub>8</sub> % guaranteed debentures 2019 ( <i>note 8</i> )	9.8	-	119	-	-
8 <sup>5</sup> / <sub>8</sub> % bonds 2020 (less unamortised discount £4m (1998 – £5m))	8.8	<b>296</b>	295	<b>296</b>	295
Total listed bonds, debentures and notes		<b>3,046</b>	3,408	<b>2,922</b>	2,842
Lease finance		<b>15</b>	10	<b>2</b>	2
Bank loans due 1999-2009	9.0	<b>789</b>	792	-	-
Other loans	6.6	<b>111</b>	10	<b>1</b>	-
Bank overdrafts and other short-term borrowings	7.3	<b>27</b>	74	<b>794</b>	1,237
Commercial paper	7.1	<b>345</b>	476	<b>345</b>	476
Loans from subsidiary undertakings		-	-	<b>7,475</b>	2,851
Total loans and other borrowings		<b>4,333</b>	4,770	<b>11,539</b>	7,408

Apart from the lease finance and £13m bank overdrafts and other short-term borrowings at 31 March 1999, all borrowings are unsecured. Lease finance is repayable by instalments.

**22. Loans and other borrowings** (continued)

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Repayments fall due as follows:				
Within one year, or on demand	<b>947</b>	881	<b>7,250</b>	3,282
Between one and two years	<b>13</b>	459	<b>934</b>	432
Between two and three years	<b>3</b>	12	<b>0</b>	280
Between three and four years	<b>1,190</b>	2	<b>1,177</b>	1
Between four and five years	<b>559</b>	1,143	<b>557</b>	1,141
After five years	<b>1,621</b>	2,273	<b>1,621</b>	2,272
Total due for repayment after more than one year	<b>3,386</b>	3,889	<b>4,289</b>	4,126
Total loans and other borrowings	<b>4,333</b>	4,770	<b>11,539</b>	7,408

(a) Average effective interest rates

The average interest rates on page 79 take into account the effect of interest rate swaps. The interest basis of interest rate swap agreements used, the notional amounts, their average maturities and weighted average interest rates are shown below:

	Average maturity	Notional amount £m	Average interest receivable rate %	Average interest payable rate %
Pay fixed interest and receive variable interest	Over 5 years	1,006	5.3	8.4
Pay variable interest and receive fixed interest	Under 5 years	365	9.5	5.6

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

(b) Unused committed lines of credit for short-term financing available at 31 March 1999 totalled approximately £150m (1998 – £786m), which was in support of a commercial paper programme or other borrowings. These lines of credit are available for up to one year.

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
<b>23. Other creditors</b>				
Trade creditors	<b>2,344</b>	1,971	<b>1,739</b>	1,550
Amounts owed to subsidiary undertakings	-	-	<b>1,261</b>	870
Amounts owed to joint ventures (trading)	<b>2</b>	2	-	-
Amounts owed to associates (trading)	-	37	-	-
Corporation and windfall taxes	<b>1,230</b>	833	<b>867</b>	589
Other taxation and social security	<b>314</b>	309	<b>323</b>	308
Other creditors	<b>1,133</b>	1,056	<b>926</b>	953
Accrued expenses	<b>445</b>	392	<b>351</b>	302
Deferred income	<b>815</b>	745	<b>742</b>	735
Dividends	<b>799</b>	736	<b>799</b>	736
Total other creditors	<b>7,082</b>	6,081	<b>7,008</b>	6,043

<b>24. Provisions for liabilities and charges</b>	Deferred taxation (a) £m	Pension provisions £m	Other provisions (b) £m	Total £m
<b>Group</b>				
Balances at 1 April 1998	274	1,224	112	1,610
Charged (credited) against profit for the year	76	176	(1)	251
Utilised in the year	–	(447)	(23)	(470)
<b>Total provisions at 31 March 1999</b>	<b>350</b>	<b>953</b>	<b>88</b>	<b>1,391</b>

<b>Company</b>				
Balances at 1 April 1998	68	1,224	45	1,337
Charged against profit for the year	66	164	–	230
Utilised in the year	–	(435)	(16)	(451)
<b>Total provisions at 31 March 1999</b>	<b>134</b>	<b>953</b>	<b>29</b>	<b>1,116</b>

(a) Deferred taxation	Group		Company	
The elements of deferred taxation provided in the accounts at 31 March were as follows:	1999 £m	1998 £m	1999 £m	1998 £m
Tax effect of timing differences due to:				
Excess capital allowances	<b>696</b>	712	<b>538</b>	598
Pension provisions	<b>(287)</b>	(367)	<b>(287)</b>	(367)
Other	<b>(59)</b>	(71)	<b>(117)</b>	(163)
Total deferred taxation provided	<b>350</b>	274	<b>134</b>	68
Advance corporation tax recoverable	–	(184)	–	(68)
Total provision for deferred taxation	<b>350</b>	90	<b>134</b>	–

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

Tax effect of timing differences due to:				
Excess capital allowances	<b>2,591</b>	2,576	<b>2,433</b>	2,463
Pension provisions	<b>(287)</b>	(367)	<b>(287)</b>	(367)
Other	<b>(59)</b>	(71)	<b>(117)</b>	(163)
Total	<b>2,245</b>	2,138	<b>2,029</b>	1,933
Advance corporation tax recoverable	–	(184)	–	(184)
Total potential liability for deferred taxation	<b>2,245</b>	1,954	<b>2,029</b>	1,749

(b) Provisions comprise amounts provided for legal or constructive obligations arising from redundancies, insurance claims and litigation.

**25. Called up share capital**

The authorised share capital of the company throughout the year ended 31 March 1999 was £2,625,000,001. At 31 March 1999 it was divided into 10,500,000,004 ordinary shares of 25p each (1998 – 10,500,000,000 ordinary shares and one special rights redeemable preference share of £1). The special rights redeemable preference share was reclassified as four ordinary shares on 15 July 1998.

The allotted, called up and fully paid share capital of the company was £1,617m at 31 March 1999 (1998 – £1,603m), representing 6,469,435,043 ordinary shares (1998 – 6,411,214,670 ordinary shares).

Of the authorised but unissued share capital at 31 March 1999, 243 million ordinary shares were reserved to meet options granted under the employee share option schemes described in *note 31*.

Ordinary shares allotted during the year were as follows:

	Number	Nominal value £	Consideration <sup>(a)</sup> £
Savings related schemes	45,740,934	11,435,233	145,915,084
Other share option schemes	3,698,425	924,606	13,017,217
Stock purchase plan	411,918	102,980	2,301,074
Scrip dividend	8,369,096	2,092,274	–
<b>Totals for the year ended 31 March 1999</b>	<b>58,220,373</b>	<b>14,555,093</b>	<b>161,233,375</b>

(a) Consideration excludes contributions from group undertakings as described in *note 26(d)*.

During the year ended 31 March 1999 a number of shareholders elected to take all or part of their dividends in shares at a value of £74m. The nominal value of the shares issued has been funded out of the capital redemption reserve and the amount of the dividend has been added back to the profit and loss reserve.

<b>26. Reconciliation of movement in shareholders' funds</b>	Share capital £m	Share premium account (a) £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m	Total £m
<b>Group</b>						
Balances at 31 March 1996	1,573	531	750	27	9,797	12,678
Goodwill, arising on acquisition of subsidiaries, associates and joint ventures (b)	–	–	–	–	(199)	(199)
Goodwill, previously written off to reserves, taken back to the profit and loss account	–	–	–	–	5	5
Employee share option schemes – 64 million shares issued (note 31)	16	144	–	–	–	160
Currency movements (including £29 million net gains in respect of foreign currency borrowings) (c)	–	–	–	–	(76)	(76)
Profit for the financial year	–	–	–	–	2,077	2,077
Dividends (54.85p net per ordinary share)	–	–	–	–	(3,510)	(3,510)
Other movements	–	–	–	–	(19)	(19)
Balances at 31 March 1997	1,589	675	750	27	8,075	11,116
Goodwill, arising on acquisition of subsidiaries, associates and joint ventures (b)	–	–	–	–	(937)	(937)
Goodwill, previously written off to reserves, taken back to the profit and loss account	–	–	–	–	5	5
Employee share option schemes – 52 million shares issued (note 31)	13	217	–	–	–	230
Movement relating to BT's employee share ownership trust (d)	–	–	–	–	(85)	(85)
Currency movements (including £31 million net gains in respect of foreign currency borrowings) (c)	–	–	–	–	(74)	(74)
Profit for the financial year	–	–	–	–	1,702	1,702
Dividends (19.0p net per ordinary share)	–	–	–	–	(1,216)	(1,216)
Scrip dividend – 4 million shares issued (note 25)	1	–	(1)	–	18	18
Other movements	–	–	–	–	26	26
Balances at 31 March 1998	1,603	892	749	27	7,514	10,785
Goodwill, previously written off to reserves, taken back to the profit and loss account (note 6)	–	–	–	–	2,214	2,214
Employee share option schemes – 50 million shares issued (d) (note 31)	12	314	–	–	–	326
Movement relating to BT's employee share ownership trust (d)	–	–	–	–	(165)	(165)
Currency movements (including £22 million net losses in respect of foreign currency borrowings) (c)	–	–	–	–	45	45
Profit for the financial year	–	–	–	–	2,983	2,983
Dividends (20.4p net per ordinary share)	–	–	–	–	(1,322)	(1,322)
Scrip dividend – 8 million shares issued (note 25)	2	–	(2)	–	74	74
<b>Balances at 31 March 1999</b>	<b>1,617</b>	<b>1,206</b>	<b>747</b>	<b>27</b>	<b>11,343</b>	<b>14,940</b>

**26. Reconciliation of movement in shareholders' funds** (continued)

Company	Share capital £m	Share premium account (a) £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
Balances at 31 March 1996	1,573	531	750	11,194	14,048
Employee share option schemes – 64 million shares issued ( <i>note 31</i> )	16	144	–	–	160
Profit for the financial year ( <i>e</i> )	–	–	–	1,475	1,475
Dividends (54.85p net per ordinary share)	–	–	–	(3,510)	(3,510)
Currency movements (including £29m net gain in respect of foreign currency borrowings)	–	–	–	(155)	(155)
Balances at 31 March 1997	1,589	675	750	9,004	12,018
Employee share option schemes – 52 million shares issued ( <i>note 31</i> )	13	217	–	–	230
Movement relating to BT's employee share ownership trust ( <i>d</i> )	–	–	–	(85)	(85)
Profit for the financial year ( <i>e</i> )	–	–	–	2,146	2,146
Dividends (19.0p net per ordinary share)	–	–	–	(1,216)	(1,216)
Scrip dividend – 4 million shares issued ( <i>note 25</i> )	1	–	(1)	18	18
Currency movements (including £31m net gain in respect of foreign currency borrowings)	–	–	–	(66)	(66)
Balances at 31 March 1998	1,603	892	749	9,801	13,045
Employee share option schemes – 50 million shares issued ( <i>d</i> ) ( <i>note 31</i> )	12	314	–	–	326
Movement relating to BT's employee share ownership trust ( <i>d</i> )	–	–	–	(165)	(165)
Profit for the financial year ( <i>e</i> )	–	–	–	3,785	3,785
Dividends (20.4p net per ordinary share)	–	–	–	(1,322)	(1,322)
Scrip dividend – 8 million shares issued ( <i>note 25</i> )	2	–	(2)	74	74
Currency movements	–	–	–	1	1
<b>Balances at 31 March 1999</b>	<b>1,617</b>	<b>1,206</b>	<b>747</b>	<b>12,174</b>	<b>15,744</b>

(a) The share premium account, representing the premium on allotment of shares and the capital redemption reserve is not available for distribution.

(b) Aggregate goodwill at 31 March 1999 in respect of acquisitions completed prior to 1 April 1998 of £1,389m (1998 – £3,603m, 1997 – £2,671m) has been written off against retained earnings in accordance with the group's accounting policy. The goodwill written off in the year ended 31 March 1998 mainly arose in connection with the acquisition of the interest in Cegetel; that written off in the year ended 31 March 1997 mainly arose in connection with the acquisition of shares not already owned in BT Telecomunicaciones SA and the acquisition of Syntegra Groep BV. The goodwill written off against retained earnings will be charged in the profit and loss account on the subsequent disposal of the business to which it related.

(c) The cumulative foreign currency translation adjustment, which decreased retained earnings at 31 March 1999, was £85m (1998 – £130m decrease, 1997 – £56m decrease).

(d) During the year ended 31 March 1999 the company issued shares at a market value of £311m (1998 – £203m) in respect of the exercise of options awarded under its principal savings-related share option scheme. Employees paid £146m (1998 – £118m) to the group for the issue of these shares and the balance of £165m (1998 – £85m) comprised contributions to the qualifying employee share ownership trust from group undertakings.

(e) The profit for the financial year, dealt with in the profit and loss account of the company and after taking into account dividends from subsidiary undertakings, was £3,785m (1998 – £2,146m, 1997 – £1,475m). As permitted by Section 230 of the Companies Act 1985, no profit and loss account of the company is presented.

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
<b>27. Financial commitments and contingent liabilities</b>				
Contracts placed for capital expenditure not provided in the accounts	<b>1,109</b>	1,047	1,008	965
Operating lease payments payable within one year of the balance sheet date were in respect of leases expiring:				
Within one year	<b>3</b>	9	<b>1</b>	3
Between one and five years	<b>29</b>	39	<b>19</b>	21
After five years	<b>116</b>	135	<b>93</b>	94
<b>Total payable within one year</b>	<b>148</b>	183	<b>113</b>	118

Future minimum operating lease payments for the group at 31 March 1999 were as follows:

	1999 £m
Payable in the year ending 31 March:	
2000	<b>148</b>
2001	<b>137</b>
2002	<b>130</b>
2003	<b>125</b>
2004	<b>120</b>
Thereafter	<b>1,238</b>
<b>Total future minimum operating lease payments</b>	<b>1,898</b>

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

At 31 March 1999, there were no contingent liabilities or guarantees other than those arising in the ordinary course of the group's business and on these no material losses are anticipated. The group has insurance cover to certain limits for major risks on property and major claims in connection with legal liabilities arising in the course of its operations. Otherwise, the group generally carries its own risks.

The company has guaranteed certain borrowings of subsidiary undertakings amounting to £979m (1998 – £1,330m).

In July 1998, the company and AT&T announced the formation of a global venture for the two companies' trans-border telecommunications activities. This venture will be jointly owned. The company will be transferring to it the majority of its cross-border international networks, its international traffic, its business with selected multi-national customers and its international products for business customers, as well as Concert. The formation of the venture is subject to regulatory clearances which are expected to be obtained later in 1999.

Satellite consortia, in which the company has participating interests, are organisations without limited liability. At 31 March 1999, the company's share of the aggregate borrowings of these consortia amounted to £144m (1998 – £188m).

Outstanding at 31 March 1999 and 1998 were warrants entitling the holders to subscribe in 1999 for US dollar 8.765% guaranteed bonds at par, repayable in 2009, to be issued by the group with a total principal value equivalent to £124m (1998 – £119m).

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

During the year ended 31 March 1999, all material outstanding US class actions brought by MCI shareholders arising out of the then-proposed merger of the company with MCI and involving claims made against the company and directors of the company who served as directors of MCI were dismissed.

**28. Pension costs**

The total pension cost of the group expensed within staff costs was £176m (1998 – £177m, 1997 – £291m), of which £167m (1998 – £169m, 1997 – £281m) related to the group's main pension scheme, the BT Pension Scheme (BTPS). The reduction in the cost in the years ended 31 March 1998 and 1999 compared with the year ended 31 March 1997 was mainly attributable to the greater than assumed return on the BTPS assets in the three-year period to 31 December 1996, ie between the last two actuarial valuations.

The pension costs for the years ended 31 March 1998 and 31 March 1999 were based on the valuation of the BTPS at 31 December 1996. The pension cost for the year ended 31 March 1997 was based on the valuation of the BTPS at 31 December 1993. The valuations, carried out by professionally qualified independent actuaries, used the projected unit method. The valuations were determined using the following long-term assumptions:

	Rates (per annum)	
	1996	1993
	%	%
Return on existing assets, relative to market values	<b>8.0</b>	8.6
Return on future investments	<b>8.4</b>	9.7
Real equity dividend growth	<b>0.75</b>	0.5
Average increase in retail price index	<b>4.0</b>	5.0
Average future increases in wages and salaries	<b>5.8</b>	6.8

At 31 December 1996, the assets of the BTPS had a market value of £19,879m and were sufficient to cover 100.3% of the benefits that had accrued to members by that date, after allowing for expected future increases in wages and salaries but not taking into account the costs of providing incremental pension benefits for employees taking early retirement under release schemes since that date. This cost, which amounted to £279m in the year ended 31 March 1999 (1998 – £224m), will be taken into account at the next planned actuarial valuation at 31 December 1999. The incremental pension cost of employees taking early retirement in the year ended 31 March 1997, which amounted to £258m, was included in redundancy costs charged to the profit and loss account in that year.

In the year ended 31 March 1999, the group made regular contributions of £239m (1998 – £238m, 1997 – £232m) and a special contribution of £200m.

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

The BTPS assets are invested in UK and overseas equities, UK and overseas properties, fixed interest and index linked securities, deposits and short-term investments. At 31 March 1999, the UK equities included 46 million (1998 – 42 million) ordinary shares of the company with a market value of £463m (1998 – £270m).

## 29. Directors

### Directors' emoluments

The emoluments of the directors for the year ended 31 March 1999 and the gains made by them on the exercise of share options were, in summary, as follows:

	1999 £000	1998 £000	1997 £000
Salaries	1,695	1,578	1,543
Performance-related bonus	1,515	882	636
Deferred bonus in shares	1,513	222	–
Other benefits	123	114	94
	<b>4,846</b>	2,796	2,273
Payments to non-executive directors (a)	<b>283</b>	259	273
Total emoluments	<b>5,129</b>	3,055	2,546
Gain on the exercise of share options (b)	<b>932</b>	857	93

(a) Payments to non-executive directors include fees paid to their principal employer of £9,500 (1998 – £38,000, 1997 – £31,000).

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

More detailed information concerning directors' remuneration, shareholdings, pension entitlements, share options and other long-term incentive plans is shown in the report on directors' remuneration on pages 47 to 55.

	1999		1998		1997	
	Year end '000	Average '000	Year end '000	Average '000	Year end '000	Average '000
<b>30. People employed</b>						
Number of employees in the group:						
UK	118.9	119.8	120.2	124.9	123.3	125.8
Non-UK	5.8	5.1	4.5	4.3	4.2	3.8
Total employees	<b>124.7</b>	<b>124.9</b>	124.7	129.2	127.5	129.6

### 31. Employee share schemes

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

An employee stock purchase plan was established in 1998 for employees in the United States. Under this plan, employees may purchase American Depositary Shares (ADSs) on a monthly basis at a price equal to the lower of (i) 85% of the average trading price of the ADSs on the New York Stock Exchange on the date on which the purchase rights are granted and, (ii) 85% of the average trading price of the ADSs on the date of purchase. During the year ended 31 March 1999, the discounted price was US\$92.20 per ADS and 0.4 million shares were issued under this plan.

#### Share option schemes

The major share option scheme, the BT Employee Sharesave Scheme, is savings related and the share options are normally exercisable on completion of a three or five-year Save As You Earn contract. A similar savings related scheme exists for group employees based outside the UK. Under the other share option schemes, share options are normally exercisable between the third and tenth anniversaries of the date of grant. Options outstanding under these share option schemes at 31 March 1998 and 1999, together with their exercise prices and dates, were as follows:

31. Employee share schemes (continued)

Normal dates of exercise	Option price per share	Number of ordinary shares		Normal dates of exercise	Option price per share	Number of ordinary shares	
		1999 millions	1998 millions			1999 millions	1998 millions
Savings-related schemes:				2001	583p	4	–
1998	320p	–	45	2002	359p	50	53
1999	341p	25	27	2003	518p	39	–
1999	300p	7	8	Other share option schemes:			
2000	404p	5	5	1993-2009	289p to 1053p	6	8
2000	306p	43	47	<b>Total options outstanding</b>			
2001	267p	64	68			<b>243</b>	261

In the period 1 April 1999 to 25 May 1999, no share options were granted, and options over one million shares were exercised or lapsed.

During the year ended 31 March 1999, BT granted options over 46 million shares (1998 – 60 million, 1997 – 79 million) substantially all under the employee sharesave schemes. The weighted average fair value of share options granted during the year ended 31 March 1999 has been estimated on the date of grant using the Black-Scholes option pricing model. The following weighted average assumptions were used in that model: an expected life extending one month later than the first exercise date; estimated annualised dividend yield of approximately 3% (1998 – 5%, 1997 – 5%); risk free interest rates of 7% (1998 – 7%, 1997 – 7%) on options exercisable three years after the date of grant and 7% (1998 – 8%, 1997 – 8%) on options exercisable five years after the date of grant; and expected volatility of approximately 30% (1998 – 18%, 1997 – 18%).

The weighted average fair value of the share options granted in the year ended 31 March 1999 was 313p (1998 – 80p, 1997 – 85p) for options exercisable three years after the date of grant and 309p (1998 – 120p, 1997 – 107p) for options exercisable five years after the date of grant. The total value of share options granted by BT in the year ended 31 March 1999 was £139m (1998 – £70m, 1997 – £83m). In accordance with UK accounting practices, no compensation expense is recognised for the fair value of options granted. See *United States Generally Accepted Accounting Principles – IV Accounting for share options* for the treatment under US GAAP.

Options granted, exercised and lapsed under these share option schemes during the years ended 31 March 1997, 1998 and 1999 and options exercisable at 31 March 1997, 1998 and 1999 were as follows:

	Savings related schemes millions	Other share option schemes millions	Total millions	Exercise price range	Weighted average exercise price
Outstanding, 31 March 1996	238	19	257	211p–460p	294p
Granted	79	–	79	267p–300p	271p
Exercised	(61)	(3)	(64)	211p–430p	251p
Lapsed	(7)	(2)	(9)	244p–430p	299p
Outstanding, 31 March 1997	249	14	263	243p–460p	297p
Granted	60	–	60	359p–596p	363p
Exercised	(46)	(6)	(52)	243p–430p	275p
Lapsed	(10)	–	(10)	243p–430p	313p
Outstanding, 31 March 1998	253	8	261	262p–596p	316p
Granted	45	1	46	518p–1053p	536p
Exercised	(46)	(3)	(49)	262p–583p	321p
Lapsed	(15)	–	(15)	265p–773p	328p
<b>Outstanding, 31 March 1999</b>	<b>237</b>	<b>6</b>	<b>243</b>	<b>267p–1053p</b>	<b>356p</b>
Exercisable, 31 March 1997	–	11	11	243p–460p	337p
Exercisable, 31 March 1998	–	7	7	262p–460p	362p
Exercisable, 31 March 1999	–	4	4	289p–460p	369p

**31. Employee share schemes** (continued)**BT Executive Share Plan, BT Performance Share Plan and BT Deferred Bonus Plan**

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

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

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

At 31 March 1999, 5.6 million shares in the company (1998 – 4.6 million) were held in trust for the ESP, 0.9 million shares (1998 – 5.8 million) were held in trust for the PSP and 0.4 million shares (1998 – nil) were held in trust for the DBP. Dividends earned on the shares during the conditional periods are reinvested in company shares for the potential benefit of the participants. Additional information relating to the plans is as follows:

	ESP		PSP		DBP		Total	
	<b>1999</b> <b>£m</b>	1998 £m	<b>1999</b> <b>£m</b>	1998 £m	<b>1999</b> <b>£m</b>	1998 £m	<b>1999</b> <b>£m</b>	1998 £m
Value of range of possible future transfers: nil to	<b>56.1</b>	29.5	<b>9.2</b>	37.9	<b>3.8</b>	–	<b>69.1</b>	67.4
Provision for the costs of the plans charged to the profit and loss account in year	<b>6.6</b>	2.5	<b>16.0</b>	6.8	<b>5.4</b>	2.2	<b>28.0</b>	11.5
Nominal value of shares held in trust	<b>1.4</b>	1.1	<b>0.2</b>	1.5	<b>0.1</b>	–	<b>1.7</b>	2.6
Market value of shares held in trust	<b>56.9</b>	30.0	<b>9.5</b>	38.0	<b>3.8</b>	–	<b>70.2</b>	68.0

The values of possible future transfers of shares under the plans were based on the company's share price at 31 March 1999 of 1,011p (1998 – 650p). The provisions for the costs of the ESP and PSP were based on best estimates of the company's performance over the plans' conditional periods, relating to those portions of the plan conditional periods from commencement up to the financial year end.

### 32. Auditors

The auditors' remuneration for the year ended 31 March 1999 for the group was £2,491,000 (1998 – £2,396,000, 1997 – £2,135,000), including £1,216,000 (1998 – £1,216,000, 1997 – £1,167,000) for the company.

The following fees were paid or are payable to the company's auditors, PricewaterhouseCoopers, in the UK for the year ended 31 March 1999 (1998 and 1997 – Coopers & Lybrand):

	1999 £000	1998 £000	1997 £000
Audit of the company's statutory accounts	1,216	1,216	1,167
Audits of the UK subsidiary undertakings' statutory accounts	605	510	396
Other services, including regulatory audits and tax compliance work (a)	8,855	4,724	4,620
<b>Total</b>	<b>10,676</b>	<b>6,450</b>	<b>6,183</b>

(a) Fees for the year ended 31 March 1999 comprise work carried out by Coopers & Lybrand and Price Waterhouse in the three months to 30 June 1998 and work carried out by PricewaterhouseCoopers subsequent to that date. Includes fees for regulatory, taxation and global venture-related work of £4,483,000 (1998 – £2,488,000, 1997 – £3,117,000). Fees for other services in the years ended 31 March 1998 and 1997 comprise fees solely to Coopers & Lybrand.

In addition, fees of £6,418,000 were paid or are payable to other international members of Coopers & Lybrand, Price Waterhouse or PricewaterhouseCoopers for the year ended 31 March 1999 in respect of audit and other services to the company's subsidiary undertakings outside the UK and in respect of other services to the group. Fees of £1,283,000 and £865,000 were paid for work carried out by Price Waterhouse inside and outside the UK, respectively, before 1 July 1998.

### 33. Financial instruments and risk management

The group holds or issues financial instruments mainly to finance its operations; for the temporary investment of short-term funds; and to manage the currency and interest rate risks arising from its operations and from its sources of finance. In addition, various financial instruments – for example, trade debtors and trade creditors – arise directly from the group's operations.

The group finances its operations primarily by a mixture of issued share capital, retained profits and long-term loans. Short-term loans, principally by issuing commercial paper, are also used as a cost-effective and liquid source of funds. The group borrows in the major debt markets in major currencies usually at fixed rates of interest. Typically, but not exclusively, the bond markets provide the most cost-effective means of long-term borrowing. The group uses derivative financial instruments primarily to manage its exposure to market risks from changes in interest and foreign exchange rates. The derivatives used for this purpose are principally interest rate swaps, currency swaps and forward currency contracts.

The types of financial instrument used for investment of short-term funds are prescribed in group treasury policies with limits on the exposure to any one organisation. Short-term investing in financial instruments is undertaken on behalf of the group by external substantial fund managers who are limited to dealing in debt instruments and are given strict guidelines on credit, diversification and maturity profiles.

Taken as a whole, risks arising from the group's financial instruments are limited. At 31 March 1999 and after taking into account interest rate swaps, the group's borrowings were at fixed rates, fixed for an average period of seven years. This reflects the profile of the capital intensive nature of the group's assets.

The group uses financial instruments to hedge some of its currency exposures arising from its non-UK assets, liabilities and forward purchase commitments. The group also hedges some of its interest liabilities. The financial instruments used comprise borrowings in foreign currencies, forward foreign currency exchange contracts and interest and currency swaps.

There has been no material change in the nature of the risk profile between the year end and the date of these financial statements.

The notional amounts of derivatives summarised below do not necessarily represent amounts exchanged by the parties and, thus, are not necessarily a measure of the exposure of the group through its use of derivatives. The amounts exchanged are calculated on the notional amounts and other terms of the derivatives which relate to interest and exchange rates.

#### (a) Interest rate risk management

The group has entered into interest rate swap agreements with commercial banks and other institutions to vary the amounts and periods for which interest rates on borrowings are fixed. By swapping fixed rates on long-term borrowings into floating rates, the group has obtained lower effective floating-rate borrowings than those available if borrowing directly at a floating rate. Under interest rate swaps, the group agrees with other parties to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts calculated by reference to an agreed notional principal amount.

At 31 March 1999, the group had outstanding interest rate swap agreements having a total notional principal amount of £1,371m (1998 – £1,489m).

**33. Financial instruments and risk management** (continued)

(b) Foreign exchange risk management

Cross currency swaps and forward foreign exchange contracts have been entered into to reduce the foreign currency exposure on the group's operations and the group's net assets. The group also enters into forward foreign exchange contracts to hedge investments, interest expense and purchase and sale commitments denominated in foreign currencies (principally US dollars and the euro). The remaining terms of the currency swaps are up to 15 years and the terms of currency forward exchange contracts are typically less than one year. The purpose of the group's foreign currency hedging activities is to protect the group from the risk that the eventual net inflows and net outflows will be adversely affected by changes in exchange rates.

At 31 March 1999, the group had outstanding foreign currency swap agreements and forward exchange contracts having a total notional principal amount of £5,152m (1998 – £4,476m).

The fair values of forward foreign currency contracts at 31 March 1999 were £3,100m (1998 – £3,037m) for purchases of currency and £1,626m (1998 – £892m) for sales of currency. These fair values have been estimated by calculating their present values using the market discount rates, appropriate to the terms of the contracts, in effect at the balance sheet dates.

At 31 March 1999, the group had deferred unrealised gains of £24m (1998 – £nil) and losses of £29m (1998 – £36m), based on dealer-quoted prices, from hedging purchase and sale commitments. At 31 March 1999, the group also had deferred realised net gains of £1m (1998 – £12m net losses). These are included in the profit and loss account as part of the hedged purchase or sale transaction when it is recognised, or as gains or losses when a hedged transaction is no longer expected to occur.

(c) Concentrations of credit risk and credit exposures of financial instruments

The group considers that it is not exposed to major concentrations of credit risk. The group, however, is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but does not expect any counterparties to fail to meet their obligations. Based on interest and exchange rates in effect at 31 March 1999, the group had a maximum credit exposure of £127m (1998 – £118m) to one counterparty under foreign currency and interest rate swap agreements. The group limits the amount of credit exposure to any one counterparty. The group does not normally see the need to seek collateral or other security.

(d) Fair value of financial instruments

The following table shows the carrying amounts and fair values of the group's financial instruments at 31 March 1999 and 1998. The carrying amounts are included in the group balance sheet under the indicated headings, with the exception of derivative amounts related to borrowings, which are included in debtors or other creditors as appropriate. The fair values of the financial instruments are the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

	Carrying amount		Fair value	
	1999 £m	1998 £m	1999 £m	1998 £m
Non-derivatives:				
Assets				
Cash at bank and in hand	102	62	102	62
Short-term investments (i)	3,278	731	3,286	731
Liabilities				
Short-term borrowings (ii)	372	550	372	550
Long-term borrowings, excluding finance leases (iii)	3,946	4,210	4,479	4,665
Derivatives relating to investments and borrowings (net) (iv):				
Assets	100	48	-	-
Liabilities	-	-	142	114

(i) The fair values of listed short-term investments were estimated based on quoted market prices for those investments. The carrying amount of the other short-term deposits and investments approximated to their fair values due to the short maturity of the instruments held.

(ii) The fair value of short-term borrowings approximated to carrying value due to the short maturity of the instruments.

(iii) The fair value of the group's bonds, debentures, notes and other long-term borrowings has been estimated on the basis of quoted market prices for the same or similar issues with the same maturities where they existed, and on calculations of the present value of future cash flows using the appropriate discount rates in effect at the balance sheet dates, where market prices of similar issues did not exist.

(iv) The fair value of the group's outstanding foreign currency and interest rate swap agreements was estimated by calculating the present value, using appropriate discount rates in effect at the balance sheet dates, of affected future cash flows translated, where appropriate, into pounds sterling at the market rates in effect at the balance sheet dates.

**33. Financial instruments and risk management** (continued)

The following information is provided in accordance with the requirements of FRS13 – “Derivatives and other financial instruments: disclosures”. As permitted by the FRS, comparative figures are not provided since this is the first accounting period in which the FRS has come into effect. Except for disclosures under *currency exposures* below, the financial information excludes all of the group’s short-term debtors and creditors.

*Financial liabilities*

After taking into account the various interest rate swaps and forward foreign currency contracts entered into by the group, the interest rate profile of the group’s financial liabilities at 31 March 1999 was:

Currency:	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Financial liabilities on which no interest is paid £m	Total £m
Sterling	2,395	1,592	–	3,987
US dollar	1,662	(1,654)	–	8
Euro	303	2	24	329
Other	–	9	–	9
<b>Total</b>	<b>4,360</b>	<b>(51)</b>	<b>24</b>	<b>4,333</b>

For the fixed rate financial liabilities, the average interest rates and the average periods for which the rates are fixed are:

Currency:	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Sterling	9.5	9
US dollar	7.2	5
Euro	5.6	8
<b>Total</b>	<b>8.4</b>	<b>7</b>

The floating rate financial liabilities bear interest at rates fixed in advance for periods ranging from one day to six months by reference to LIBOR. The financial liabilities on which no interest is paid are due to mature within two months of the balance sheet date.

The maturity profile of financial liabilities is as given in *note 22*.

*Financial assets*

After taking into account the various interest rate swaps and forward foreign currency contracts entered into by the group, the interest rate profile of the group’s financial assets at 31 March 1999 was:

Currency:	Fixed rate financial assets £m	Floating rate financial assets £m	Total £m
Sterling	273	2,651	2,924
US dollar	–	369	369
Euro	–	57	57
Other	–	30	30
<b>Total</b>	<b>273</b>	<b>3,107</b>	<b>3,380</b>

The sterling fixed rate financial assets yield interest at a weighted average of 5.5% for a weighted average period of 15 months.

The floating rate financial assets bear interest at rates fixed in advance for periods up to one year by reference to LIBOR.

**33. Financial instruments and risk management** (continued)*Currency exposures*

The table below shows the group's currency exposures in terms of those transactional exposures that give rise to currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the group that are not denominated in the operating (or "functional") currency of the operating unit involved, other than certain non-sterling borrowings treated as hedges of net investments in non-UK operations. As at 31 March 1999, these exposures were as follows:

Functional currency of group operation:	Net foreign currency monetary assets (liabilities)				Total £m
	Sterling £m	US dollar £m	Euro £m	Other £m	
Sterling	–	517	38	25	580
Euro	(6)	–	–	(18)	(24)
Other	(16)	5	–	–	(11)
	<b>(22)</b>	<b>522</b>	<b>38</b>	<b>7</b>	<b>545</b>

The amounts shown in the table above take into account the effect of any currency swaps, forward contracts and other derivatives entered into to manage those currency exposures.

As at 31 March 1999, the group also held various forward currency contracts that the group had taken out to hedge expected future foreign currency purchases and sales.

*Fair values of financial assets held for trading*

	£m
Net gain included in profit and loss account	<b>104</b>
Fair value of financial assets held for trading at 31 March 1999	<b>1,944</b>

The net gain was derived from government bonds, commercial paper and similar debt instruments.

*Hedges*

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on instruments used for hedging and those recognised in the year ended 31 March 1999 are as follows:

	Gains £m	Losses £m
Gains and losses:		
recognised in the year but arising in previous years (a)	<b>28</b>	<b>26</b>
unrecognised at 31 March 1999	<b>38</b>	<b>279</b>
carried forward in the balance sheet at 31 March 1999, pending recognition in the profit and loss account (a)	<b>45</b>	<b>38</b>
expected to be recognised in the year ended 31 March 2000 (a)	<b>27</b>	<b>26</b>

(a) Excluding gains and losses on hedges accounted for by adjusting the carrying amount of a fixed asset.

**34. Effect of accounting policy changes**

In accordance with the Companies Act, the following disclosure is given on the effect of the changes in accounting policy on the group's profit for the year ended 31 March 1999.

	£m
Profit for the financial year, as reported	2,983
Effect of capitalising and amortising goodwill on acquisitions on or after 1 April 1998	17
Effect of capitalising computer software on non-network systems (net of £33m tax)	(73)
Profit for the financial year under the previous accounting policies	<b>2,927</b>

**35. Segmental analysis**

The following information is provided as required by the US accounting standard, SFAS No. 131, on disclosures about segments of an enterprise. The information presented is required to be based on the segmental operating results regularly reviewed by the group's chief operating decision maker (the CEO).

The group is a unitary business providing an integrated range of services and is managed on this basis. For the purposes of exercising day-to-day managerial and budgetary control, the business is divided internally into divisions but these divisions are not self-standing businesses. Control is exercised by comparing performance against budgets agreed in advance. The CEO reviews the turnover and operating results for each main division. The group's capital expenditure programmes are largely centrally driven and are not necessarily linked to individual divisions. For this reason it is group policy not to allocate certain assets to individual divisions, although depreciation charges are allocated.

Since September 1997, the group has been organised into two main divisions BT UK and BT Worldwide (formerly named BT Global and Global Communications) in order to reflect the group's two distinctive geographical operating regions and customer groups. Substantially all of the group's operations are within the UK and, of those, the majority of which are currently managed by BT UK. BT UK is subdivided into several operating sub-divisions, the principal three during the 12 months to 30 September 1998 being the Business and Consumer Divisions providing the customer facing links for the fixed network and Networks & Systems providing the UK fixed network as a platform for the selling divisions' services. From 1 October 1998, BT UK has been progressively reorganised into ten separate business units, the majority of which may not meet the requirements of an "operating segment" as defined in SFAS No. 131. During the year ending 31 March 2000, a new division will be formed to integrate the group's solutions business.

Prior to 30 September 1998, the Consumer Division provided fixed network telecommunication services for residential customers, principally the provision of exchange lines to customers' homes and calls to and from those homes. The Business Division provided fixed network services to businesses and organisations other than multinational companies, principally the provision of exchange lines, private circuits and calls to and from the places of business and customer premises equipment. The Networks and Systems Division built, maintained and operated the company's fixed telecommunications network in the UK. Other units within BT UK provided the group's mobile telecommunication services, classified advertising directories and outsourcing services.

BT Worldwide provided telecommunication services to multinational companies, including those based in the UK, and international incoming, outgoing and transit telecommunication services. It was responsible for managing Concert Communications and the group's other non-UK operations, and investments in non-UK joint ventures and associates.

In the year ended 31 March 1997 and until 30 September 1997, the group was organised into the following divisions: three customer facing divisions, Global Communications, National Business Communications and Personal Communications; the Networks & Systems operating division; and a number of other support units. These divisions broadly equated to the BT Global Division, Business Division, Consumer Division and Networks and Systems Division described above. Mobile Communications were reported separately.

The following information for the years ended 31 March 1998 and 1999 is based on the divisional organisation of the group at 1 April 1998, described above. As already noted, the BT UK organisation was changed progressively from 1 October 1998 into a substantially different form and financial information in its new form is being made available to the senior management of the group with respect to accounting periods from 1 April 1999. It has not been practicable to restate the segment information for the year ended 31 March 1997 onto the segment basis presented for the following two years.

## 35. Segmental analysis (continued)

	Turnover		Depreciation and amortisation £m	Operating profit (loss) of associates and joint ventures £m	Total operating profit (loss) £m
	External £m	Internal £m			
YEAR ENDED 31 MARCH 1999					
Business Division	5,624	294	106	–	1,535
Consumer Division	6,168	140	113	(7)	1,998
Networks & Systems	108	–	1,716	(3)	96
Other, including Mobile Communications	2,682	2,189	321	(32)	96
Eliminations	–	(2,351)	–	–	–
<b>Total BT UK</b>	<b>14,582</b>	<b>272</b>	<b>2,256</b>	<b>(42)</b>	<b>3,725</b>
BT Worldwide	2,361	984	145	(292)	(327)
Other	10	847	180	(8)	76
Eliminations	–	(2,103)	–	–	–
<b>Group totals</b>	<b>16,953</b>	<b>–</b>	<b>2,581</b>	<b>(342)</b>	<b>3,474</b>
YEAR ENDED 31 MARCH 1998					
Business Division	5,611	419	121	–	1,447
Consumer Division	5,885	101	127	–	1,438
Networks & Systems	148	–	1,720	(2)	61
Other, including Mobile Communications	1,661	1,759	251	(5)	271
Eliminations	–	(878)	–	–	–
<b>Total BT UK</b>	<b>13,305</b>	<b>1,401</b>	<b>2,219</b>	<b>(7)</b>	<b>3,217</b>
Global Communications	2,262	150	70	(217)	(105)
Other	73	1,029	106	28	349
Eliminations	–	(2,580)	–	–	–
<b>Group totals</b>	<b>15,640</b>	<b>–</b>	<b>2,395</b>	<b>(196)</b>	<b>3,461</b>
YEAR ENDED 31 MARCH 1997					
National Business Communications	5,129	185	98	–	1,475
Personal Communications	5,644	31	106	–	1,449
Global Communications	2,995	165	107	(30)	380
Networks & Systems	143	–	1,609	(3)	79
Other, including Mobile Communications	1,024	642	345	217	46
Eliminations	–	(1,023)	–	–	–
<b>Group totals</b>	<b>14,935</b>	<b>–</b>	<b>2,265</b>	<b>184</b>	<b>3,429</b>

Transactions between divisions are at prices set in accordance with those agreed with Oftel where the services provided are subject to regulation. Other transactions are at arms length. Internal supplies of services from Networks & Systems are accounted for by that division as negative costs.

**35. Segmental analysis** (continued)

Information about geographic areas:

	<b>1999</b>	1998	1997
	<b>£m</b>	£m	£m
Turnover with external customers:			
Attributable to UK	<b>15,612</b>	14,384	13,743
Attributable to non-UK countries <i>(a)</i>	<b>1,341</b>	1,256	1,192
<b>Group turnover</b>	<b>16,953</b>	15,640	14,935

*(a)* Turnover attributable to non-UK countries comprises the external turnover of group companies and branches operating outside the UK, income from non-UK operators for calls terminating in or in transit through the UK and turnover with non-UK joint ventures and associates.

	<b>1999</b>	1998
	<b>£m</b>	£m
Group fixed assets are located:		
In the UK	<b>18,247</b>	17,115
Outside the UK	<b>2,181</b>	1,845
<b>Total</b>	<b>20,428</b>	18,960