

Chief Executive's statement

BT is a company experiencing major change, in an industry that is changing the way people live and work around the world.

Transformation

With your support, BT is transforming itself from a UK telecommunications company into a global communications company.

This may seem to be a small change linguistically, but it represents a huge leap strategically.

"Telecommunications" is now, we believe, too narrow a word to sum up the wide range of things we do and want to do.

We have grown from a national telecommunications operator, dealing mainly in fixed-voice telephone calls, to a global communications company with operations that span the world, and services that, in addition to fixed-voice telephony, include the Internet, mobile and data communications, and business systems and solutions.

Our strategy

And the strategy which underpins this transformation and these successes is a simple one – to seize the opportunities for growth in our chosen communications markets worldwide.

I hope that this report will give you some indication of how we are translating our strategy into action.

Data

Data communications, which covers almost all network traffic that is not voice – including e-mail, the Internet,

electronic commerce, and files sent from computer to computer – is growing at more than 30 per cent per year. Data has overtaken voice communication over BT's networks, a phenomenon often referred to as the "datawave".

Investment in our networks

In 1998/99, we launched the UK's largest and most advanced data network. And we have earmarked £5 billion for future investment in data and multimedia services.

And, with our partners in mainland Europe, we launched a state-of-the-art pan-European optical fibre network connecting 200 cities.

Concert

BT is already a world-leader in the growth area of global managed services through Concert Communications, which has 40 per cent of the *Fortune* top 500 companies as customers. And Concert is to become a key part of BT's contribution to the global venture we are forming with AT&T.

Liberalised markets worldwide

Our growth in the recently-liberalised markets worldwide has continued. In the European market, which is growing by ten per cent per year, we currently have more licences than any other operator. In 1998/99, our European ventures increased their customer numbers by more than 150 per cent to over nine million.

In Asia Pacific, we have made carefully targeted investments in high-growth companies, such as Binariang of Malaysia, LG Telecom of the Republic of Korea and SmarTone of Hong Kong. And, in April 1999, we

announced, together with AT&T, a partnership with Japan Telecom. Japan is a key market and this move takes our global strategy an important step forward. During the year, revenues from our new ventures in mainland Europe and the Asia-Pacific region amounted to over £1.1 billion.

We have also made our first foray into Latin America, with a £90 million investment in ImpSat, which provides major corporate customers with an advanced range of voice, data, Internet and e-commerce services in key cities.

Mobility

The market for mobile communications is growing at 20 per cent per year and our mobile operations now have more than 14 million customers worldwide – including over four million each for BT Cellnet in the UK and Cegetel's subsidiary, SFR, in France and over two million for Spain's Airtel.

Business systems

And, in the market for business systems, BT's Syncordia Solutions, which manages networks for corporate clients, and Syntegra, which designs integrated business systems, together grew by more than 20 per cent in 1998/99.

Innovation

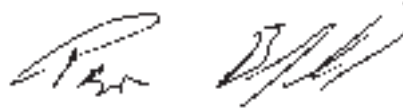
Our work in all of these growth areas draws on our world-class research and development. Innovation is vital for a successful communications company, and we are working at the leading-edge in technologies such as the Internet protocol (IP) – the technology behind the Internet – and mobile communications.

To date, our researchers have won the Queen's Award for Technological Achievement on five occasions.

The future

In 1998/99, our focus on the major growth areas of communications delivered results for all our stakeholders – for our shareholders, our customers, our people and for the communities in which we operate.

I look forward to your continued support as we step up to face the challenges and opportunities of this fast-moving market, and as we drive for further growth in 1999/2000.



Sir Peter Bonfield CBE

Chief Executive

25 MAY 1999

