

# Notes to the financial statements

## 1. Changes in accounting policies and presentation

With effect from 1 April 2000, the group changed its method of accounting for loans and other borrowings. Loans and other borrowings are now adjusted for the effect of currency swaps acting as hedges. There is no impact on the profit of the group as a result of this change; the adjustment is reflected in debtors or creditors. By adjusting for the effects of currency swaps acting as hedges the balances stated reflect the full economic exposure of the company arising from loans and other borrowings. The comparative figures have not been restated as the impact is not material.

During the year ended 31 March 2001, the group has made a number of changes in the presentation of its financial statements. Comparative figures have been restated accordingly. These are explained in the notes where material.

## 2. Segmental analysis

The group provides telecommunication services, principally in the UK and essentially operated as a unitary business prior to 1 July 2000. Its main services and products are fixed voice and data calls in the UK, the provision of fixed exchange lines to homes and businesses, the supply of mobile communication services and equipment to businesses and individuals, the provision of communication services in the UK to other operators, the provision of private services to businesses and the supply of telecommunication equipment for customers' premises.

In April 2000, the group announced a restructuring whereby the group and its associates and joint ventures would be managed in several separate lines of business comprising four international businesses and two UK operating businesses, together with the group's Concert global venture. The four international businesses, which were formed in July 2000, are: BT Wireless covering the group's interests in mobile communications; BT Ignite responsible for broadband and internet networks; BTOpenworld covering the consumer market for internet products around the world; and Yell, responsible for the classified directories and associated e-commerce businesses. The two UK operating lines of business, which were formed in autumn 2000, are a wholesale line of business covering the UK fixed network and a retail line of business responsible for marketing UK fixed-network products. In November 2000, the group announced that it intended to set up a new company, provisionally named NetCo, to operate the group's UK fixed network. NetCo, which will be formed principally from the UK wholesale business and part of the UK retail business, is planned to be set up during the course of the year ending 31 March 2002.

The turnover of each line of business is derived as follows:

- BT Retail derives its turnover from the supply of exchange lines to the group's UK customers and from the calls they make over these lines, the leasing of private circuits and other private services, and the sale and rental of customer premises equipment.
- BT Wholesale derives its turnover from providing network services to BT Retail and other BT lines of business, and from interconnecting the group's UK network to other operators.
- BT Wireless mainly derives its turnover from the calls made and received by its customers using its mobile phones, from subscription fees charged to its contract customers and from handset equipment sales.
- BT Ignite mainly generates its turnover from outsourcing and systems integration work and from the fixed network operations of the group's European subsidiaries. The business also derives revenues from providing web hosting facilities.
- BTOpenworld mainly derives its turnover from its narrowband internet access products, mainly by selling advertising.
- Yell derives its turnover from selling advertising in its classified directories in the UK and in the US.

Prior to the restructuring implemented during the year ended 31 March 2001, the group was managed as a unitary business providing an integrated range of services. For the purposes of exercising day-to-day managerial and budgetary control, however, the business was divided internally into divisions but these divisions were not self-standing businesses. Control was exercised by comparing performance against budgets agreed in advance. The group's chief operating decision maker (the CEO) reviewed the turnover and operating results for each main division. The group's capital expenditure programmes were largely centrally driven and were not necessarily linked to individual divisions. For this reason it had been group policy not to allocate certain assets to individual divisions, although depreciation charges were allocated.

## 2. Segmental analysis (continued)

Segmented information on the new lines of business is given below for the year ended 31 March 2001 as required by the UK accounting standard SSAP 25 and the US accounting standard SFAS No. 131 (SFAS 131).

Financial information in the group's new form was made available to the senior management of the group with respect to accounting periods from 1 July 2000.

For the years ended 31 March 1999 and 2000, information is provided as required by the US accounting standard, SFAS 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 CEO.

Because of the fundamental restructuring and the previous progressive reorganisation explained below, it has not been practicable to restate the segment information for the years ended 31 March 1999 and 2000 onto the segment basis presented for the year ended 31 March 2001 with the limited exceptions of BT Wireless and Yell.

Between September 1997 and July 2000, the group was organised into two main divisions, BT UK and BT Worldwide, in order to reflect the group's two distinctive geographical operating regions and customer groups. Substantially all of the group's operations were within the UK and, of those, the majority were managed by BT UK. During the year ended 31 March 2000 and progressively from 1 October 1998, BT UK was sub-divided into ten separate business units, the principal five of which were Markets, Enterprises, Networks and Systems, Mobility, and Products and Solutions. Markets was the division providing the customer facing links for the group's fixed network services and Enterprises managed the Yellow Pages classified directory business and the group's wholesale interconnect business with other operators. Networks and Systems provided the UK fixed network as a platform for these services. Mobility provided the group's UK mobile communication services, principally via BT Cellnet. Products and Solutions managed the group's outsourcing services.

Prior to 30 September 1998, the Consumer Division within BT UK 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 services and calls to and from their 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. Mobile Communications provided the group's UK mobile communications services. Other units within BT UK provided the group's classified advertising directories and outsourcing services.

BT Worldwide provided telecommunication service 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.

The following information for the year ended 31 March 1999 set out below 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. Financial information in its then new form and set out for the year ended 31 March 2000 was made available to the senior management of the group with respect to accounting periods from 1 April 1999.

Year ended 31 March 2001	Turnover			Depreciation and amortisation £m	Operating profit (loss) of associates and joint ventures £m	Total operating profit (loss) £m
	External £m	Internal £m	Business total £m			
BT Retail	10,657	1,154	11,811	185	–	1,003
BT Wholesale	3,005	8,488	11,493	1,738	–	2,540
BT Ignite	2,968	502	3,470	649	(124)	(672)
BT Wireless	2,873	535	3,408	3,416	(264)	(3,374)
Concert	–	–	–	–	(1)	(1)
Yell	768	6	774	35	2	188
BTopenworld	85	82	167	37	(69)	(296)
Other	71	302	373	371	59	276
Eliminations	–	(11,069)	(11,069)	–	–	–
<b>Group totals</b>	<b>20,427</b>	<b>–</b>	<b>20,427</b>	<b>6,431</b>	<b>(397)</b>	<b>(336)</b>

## Notes to the financial statements

### 2. Segmental analysis (continued)

The following table shows the capital expenditure on plant, equipment and property for the year ended 31 March 2001 and the net operating assets of the new lines of business at 31 March 2001. Net operating assets comprise tangible and intangible fixed assets, stocks, debtors, less creditors, excluding loans and other borrowings, and provisions for liabilities and charges, excluding deferred tax.

	Capital expenditure £m	Net operating assets (liabilities) £m	Associates and joint ventures £m
BT Retail	157	1,114	–
BT Wholesale	2,273	12,511	–
BT Wireless	1,105	18,634	27
Ignite	936	3,584	178
Concert	–	–	1,430
Yell	21	710	2
BTopenworld	25	(17)	12
Other	469	1,040	2,507
<b>Total</b>	<b>4,986</b>	<b>37,576</b>	<b>4,156</b>

Year ended 31 March 2000	Turnover			Depreciation and amortisation £m	Operating profit (loss) of associates and joint ventures £m	Total operating profit (loss) £m
	External £m	Internal £m	Business total £m			
Markets	11,636	8	11,644	67	(9)	2,564
Enterprises	3,114	328	3,442	100	(4)	835
Networks & Systems	3	–	3	1,812	–	4
Mobility	2,170	391	2,561	305	8	117
Products and Solutions	197	368	565	76	(103)	240
Other	10	2	12	132	–	(175)
Eliminations	–	(1,004)	(1,004)	–	–	–
<b>Total BT UK</b>	<b>17,130</b>	<b>93</b>	<b>17,223</b>	<b>2,492</b>	<b>(108)</b>	<b>3,585</b>
BT Worldwide	1,540	129	1,669	176	(335)	(520)
Other	45	10	55	173	43	133
Eliminations	–	(232)	(232)	–	–	–
<b>Group totals</b>	<b>18,715</b>	<b>–</b>	<b>18,715</b>	<b>2,841</b>	<b>(400)</b>	<b>3,198</b>

The above includes the following information presented on the new lines of business structure:

BT Wireless	2,245	391	2,636	313	(243)	(170)
Yell	617	5	622	18	1	191

Year ended 31 March 1999	Turnover			Depreciation and amortisation £m	Operating profit (loss) of associates and joint ventures £m	Total operating profit (loss) £m
	External £m	Internal £m	Business total £m			
Business Division	5,624	294	5,918	106	–	1,535
Consumer Division	6,168	140	6,308	113	(7)	1,998
Networks & Systems	108	–	108	1,716	(3)	96
Mobile Communications	1,400	312	1,712	195	6	189
Other	1,282	1,877	3,159	126	(38)	(93)
Eliminations	–	(2,351)	(2,351)	–	–	–
<b>Total BT UK</b>	<b>14,582</b>	<b>272</b>	<b>14,854</b>	<b>2,256</b>	<b>(42)</b>	<b>3,725</b>
BT Worldwide	2,361	984	3,345	145	(292)	(327)
Other	10	847	857	180	(8)	76
Eliminations	–	(2,103)	(2,103)	–	–	–
<b>Group totals</b>	<b>16,953</b>	<b>–</b>	<b>16,953</b>	<b>2,581</b>	<b>(342)</b>	<b>3,474</b>

## 2. Segmental analysis (continued)

Year ended 31 March 1999	Turnover			Depreciation and amortisation £m	Operating profit (loss) of associates and joint ventures £m	Total operating profit (loss) £m
	External £m	Internal £m	Business total £m			
The above includes the following information presented on the new lines of business structure:						
BT Wireless	1,510	312	1,822	195	(152)	45
Yell	466	3	469	6	–	177

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 were accounted for by that division as negative costs in 1999 and 2000.

Information about geographic areas:

	2001 £m	2000 £m	1999 £m
<b>Turnover with external customers</b>			
Attributable to UK	18,642	17,161	15,612
Attributable to non-UK countries (a)	1,785	1,554	1,341
<b>Group turnover</b>	<b>20,427</b>	<b>18,715</b>	<b>16,953</b>
(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.			

	2001 £m	2000 £m
<b>Group fixed assets are located</b>		
UK	26,167	20,940
Europe, excluding the UK	13,893	3,935
Americas	2,990	2,549
Asia and Pacific	2,159	2,394
<b>Total</b>	<b>45,209</b>	<b>29,818</b>

Geographical segment analysis in accordance with the requirements of SSAP 25 is as follows:

	2001 £m	2000 £m	1999 £m
<b>Total turnover on basis of origin</b>			
UK	18,500	17,975	16,485
Europe, excluding the UK	3,084	1,891	1,231
Americas	2,771	979	237
Asia and Pacific	5,311	1,058	270
<b>Total</b>	<b>29,666</b>	<b>21,903</b>	<b>18,223</b>

	2001 £m	2000 £m	1999 £m
<b>Group turnover on basis of origin</b>			
UK	18,642	17,866	16,364
Europe, excluding the UK	1,183	285	240
Americas	368	383	237
Asia and Pacific	234	181	112
<b>Total</b>	<b>20,427</b>	<b>18,715</b>	<b>16,953</b>

The analysis of turnover by geographical area is stated on the basis of origin. In an analysis of turnover by destination, incoming and transit international calls by country of origin and turnover with non-UK joint ventures and associates would be treated differently but would not lead to a materially different geographical analysis. See the “information about geographic areas” above.

## Notes to the financial statements

### 2. Segmental analysis (continued)

	2001 £m	2000 £m	1999 £m
<b>Group operating profit (loss)</b>			
UK	3,520	3,621	3,858
Europe, excluding the UK	(3,346)	(42)	(31)
Americas	(7)	34	4
Asia and Pacific	(106)	(15)	(15)
<b>Total</b>	<b>61</b>	<b>3,598</b>	<b>3,816</b>

	2001 £m	2000 £m	1999 £m
<b>Share of operating results of associates and joint ventures, including goodwill amortisation – profits (losses)</b>			
UK	(32)	(118)	(13)
Europe, excluding the UK	(471)	(312)	(307)
Americas	(66)	43	–
Asia and Pacific	172	(13)	(22)
<b>Total</b>	<b>(397)</b>	<b>(400)</b>	<b>(342)</b>

Year ended 31 March	2001			2000		
	Net operating assets £m	Associates and joint ventures £m	Total £m	Net operating assets £m	Associates and joint ventures £m	Total £m
UK	23,750	42	23,792	16,428	17	16,445
Europe, excluding the UK	12,878	468	13,346	2,232	1,296	3,528
Americas	783	1,716	2,499	653	1,724	2,377
Asia and Pacific	165	1,930	2,095	156	2,188	2,344
<b>Total</b>	<b>37,576</b>	<b>4,156</b>	<b>41,732</b>	<b>19,469</b>	<b>5,225</b>	<b>24,694</b>

Net operating assets comprise tangible and intangible fixed assets, stocks, debtors less creditors, excluding loans and other borrowings, and provisions for liabilities and charges, excluding deferred tax.

### 3. Turnover

	2001 £m	2000 <sup>(a)</sup> £m	1999 <sup>(a)</sup> £m
Fixed network calls	5,655	5,908	6,026
Exchange lines	3,674	3,526	3,351
Receipts from other operators	2,814	1,974	1,417
Wireless products	2,760	2,170	1,400
Private services	1,091	1,135	1,140
Solutions	1,074	915	746
Yellow Pages and other directories	754	642	491
Customer premises equipment supply	726	847	870
Other sales and services	1,879	1,598	1,512
<b>Group turnover</b>	<b>20,427</b>	<b>18,715</b>	<b>16,953</b>
Group's share of associates' and joint ventures' turnover	9,937	3,364	1,270
Trading between group and principal joint venture	(698)	(176)	–
<b>Total turnover</b>	<b>29,666</b>	<b>21,903</b>	<b>18,223</b>

<sup>(a)</sup> Figures in the 1999 and 2000 financial years have been restated to conform with the method of classification used in the 2001 financial year.

### 3. Turnover (continued)

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

	2001 £m	2000 £m	1999 £m
Joint ventures	4,018	1,784	561
Associates:			
Continuing activities	2,362	1,580	709
Acquisitions	3,557	–	–
	5,919	1,580	709
<b>Group's share of associates' and joint ventures' turnover</b>	<b>9,937</b>	<b>3,364</b>	<b>1,270</b>

Approximately 9% (2000 – 5%, 1999 – 4%) of group turnover arose from operations outside the UK and approximately 38% (2000 – 18%, 1999 – 10%) of total turnover arose from activities outside the UK (note 2). Unaudited information concerning the group's classified directory business in the UK is shown on page 142 of this annual report.

Concert, the joint venture with AT&T, was formed on 5 January 2000 (see note 16). From that date, international calls into, through and out of the UK and formerly handled by the company, have been handled by Concert. Additionally, certain of the company's multinational customers were transferred to Concert on the same date.

Fixed network calls comprise calls within the UK and calls made from the UK to other countries. Receipts from other operators include revenues from Concert for terminating incoming international calls from 5 January 2000 and revenues from non-UK operators for incoming and transit calls into and through the UK up to that date.

The group's share of trading with Concert, primarily in respect of international calls made to and from the UK and for services provided to Concert in the UK for the multinational customers transferred to Concert, is eliminated in arriving at total turnover, including the proportionate share of the group's associates and joint ventures, and is added back in arriving at group turnover.

### 4. Other operating income

	2001 £m	2000 £m	1999 £m
Seconded staff and administration and other services provided to Concert	168	79	–
Other	225	163	168
<b>Total other operating income</b>	<b>393</b>	<b>242</b>	<b>168</b>

## Notes to the financial statements

### 5. Operating costs

	2001 £m	2000 £m	1999 £m
Staff costs:			
Wages and salaries	3,954	3,754	3,366
Social security costs	313	316	275
Pension costs (note 30)	326	167	176
Employee share ownership scheme (a)	32	59	64
<b>Total staff costs</b>	<b>4,625</b>	<b>4,296</b>	<b>3,881</b>
Own work capitalised	(693)	(498)	(428)
Depreciation (note 19)	3,045	2,752	2,581
Amortisation and impairment of goodwill and other intangibles (note 18)	3,386	89	–
Payments to telecommunications operators	3,802	3,086	2,120
Other operating costs (b)	6,594	5,634	5,151
<b>Total operating costs</b>	<b>20,759</b>	<b>15,359</b>	<b>13,305</b>
Operating costs included the following:			
Redundancy charges	104	59	124
Research and development	364	345	268
Rental costs relating to operating leases, including plant and equipment hire £15 million (2000 – £12 million, 1999 – £9 million)	166	189	185
Foreign currency gains	(50)	(26)	(88)
Amortisation of goodwill and exceptional items comprising:			
Exceptional costs relating to impairment of goodwill	3,000	–	–
Exceptional credit for rates refunds, relating to prior years	(193)	–	–
Exceptional costs relating to the write off of subscriber acquisition costs (c)	7	–	–
Exceptional costs relating to the write off of Viag Interkom IT systems	43	–	–
Exceptional costs relating to the proposed closure of the BT Cellnet analogue network:			
Depreciation	–	37	–
Other operating costs	–	10	–
	–	47	–
Exceptional costs relating to the disengagement from MCI:			
Staff costs	–	13	10
Depreciation	–	11	13
Payments to telecommunication operators	–	18	14
Other operating costs	–	22	32
	–	64	69
<b>Total exceptional items</b>	<b>2,857</b>	<b>111</b>	<b>69</b>
Goodwill amortisation	373	89	–
<b>Total amortisation of goodwill and exceptional items</b>	<b>3,230</b>	<b>200</b>	<b>69</b>
(a) Amount set aside for the year for allocation of ordinary shares in the company to eligible employees.			
(b) No charge for the cost of providing incremental pension benefits for employees taking early retirement was made in the years ended 31 March 2001, 2000 and 1999 in view of the combined surplus in the BT Pension Scheme disclosed by the actuarial valuations as at 31 December 1999 and 1996, and the amount provided for pension costs within provisions for liabilities and charges.			
(c) The accounting of all the BT Wireless operating units has been aligned; this has resulted in a write off of previously capitalised costs in certain non-UK operations.			

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. Operating costs (continued)

The operating costs for the year ended 31 March 2001 on page 88, include the following amounts relating to acquisitions made in the year.

	2001 £m
Total staff costs	65
Depreciation	76
Amortisation of intangibles	8
Payments to telecommunications operators	138
Other operating costs	246
<b>Total operating costs</b>	<b>533</b>

## 6. 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:

	2001 £m	2000(b) £m	1999(b) £m
<b>Joint ventures:</b>			
Continuing	(377)	(124)	(84)
Acquisitions	(8)	-	-
Discontinued or subsequently wholly acquired	(381)	(303)	(258)
	<b>(766)</b>	<b>(427)</b>	<b>(342)</b>
<b>Associates:</b>			
Continuing	168	41	-
Acquisitions	201	(14)	-
	<b>369</b>	<b>27</b>	<b>-</b>
<b>Group's share of operating loss of associates and joint ventures (a)</b>	<b>(397)</b>	<b>(400)</b>	<b>(342)</b>
<i>(a) Includes:</i>			
Exceptional item relating to impairment of goodwill	200	-	-
Exceptional item relating to write off of subscriber acquisition costs	132	-	-
Amortisation of goodwill arising in joint ventures and associates	185	84	17
<i>(b) Prior years' figures have been restated to provide comparative information for joint ventures discontinued or subsequently wholly acquired in the year ended 31 March 2001.</i>			

## 7. Profit on sale of fixed asset investments and group undertakings

In November 2000, the group sold its 34% stake in sunrise communications, its joint venture in Switzerland, to a fellow shareholder for a consideration of £464 million, on which a realised profit of £454 million has been recognised. In December 2000, BT sold off part of its Aeronautical and Maritime division at a profit of £46 million. Reductions in BT's holdings in I.Net SpA and British Interactive Broadcasting Limited resulted in gains of £38 million and £25 million, respectively. Other gains during the year totalled £56 million. All these items have been classified as exceptional in the year ended 31 March 2001.

In August 1999, the group sold BT Communications Services KK to Japan Telecom for a consideration of £170 million, on which a realised profit of £80 million has been recognised. In February 2000, BT's photonics research facility was sold at a profit of £35 million. Other gains during the year totalled £11 million. All these items have been classified as exceptional in the year ended 31 March 2000.

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

With the exception of Concert Communications (see note 16), the subsidiary undertakings disposed of in the years ended 31 March 2001, 2000 and 1999 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.

## Notes to the financial statements

### 8. Interest receivable

	2001 £m	2000 £m	1999 £m
Income from listed investments	30	13	9
Other interest receivable (a)	352	169	150
<b>Group</b>	<b>382</b>	<b>182</b>	<b>159</b>
Joint ventures	19	4	2
Associates	7	7	4
<b>Total interest receivable</b>	<b>408</b>	<b>193</b>	<b>165</b>
(a) Includes:			
Exceptional credit for interest on rates refunds received in 2000, relating to prior years	25	–	–

### 9. Interest payable

	2001 £m	2000 £m	1999 £m
Interest payable and similar charges in respect of:			
Bank loans and overdrafts	181	87	77
Other borrowings (a)	1,245	401	343
<b>Group</b>	<b>1,426</b>	<b>488</b>	<b>420</b>
Joint ventures	176	47	19
Associates	120	40	12
<b>Total interest payable</b>	<b>1,722</b>	<b>575</b>	<b>451</b>
(a) Includes £7 million premium charged in the year ended 31 March 1999 on the early redemption of US\$200 million 9% Guaranteed Debentures 2019 on 16 February 1999.			

### 10. Tax on profit (loss) on ordinary activities

	2001 £m	2000 £m	1999 £m
United Kingdom:			
Corporation tax at 30% (2000 – 30%, 1999 – 31%)	690	852	1,200
Deferred taxation charge (credit) at 30%	27	(3)	71
Taxation on the group's share of results of associates	6	3	1
Taxation on the group's share of results of joint ventures	42	–	–
Prior year adjustments	(296)	4	–
<b>Total UK taxation</b>	<b>469</b>	<b>856</b>	<b>1,272</b>
Non-UK taxation:			
Current	24	5	14
Taxation charge on the group's share of results of joint ventures	33	11	3
Taxation charge on the group's share of results of associates	146	25	4
Prior year adjustments	(20)	–	–
<b>Total tax on profit (loss) on ordinary activities</b>	<b>652</b>	<b>897</b>	<b>1,293</b>

In the year ended 31 March 2001, the loss on ordinary activities before taxation was £1,031 million, after charging £3,200 million goodwill impairment, which is not an allowable expense for taxation. In the following table, the effective corporation tax rate is reconciled to the profit of £2,169 million before this impairment charge.

## 10. Tax on profit on ordinary activities (continued)

Total tax on profit on ordinary activities, 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:

	2001 %	2000 %	1999 %
UK corporation tax rate	30.0	30.0	31.0
Non-deductible depreciation and amortisation	9.0	2.5	0.6
Non-deductible non-UK losses	11.3	2.7	1.5
Higher taxes on non-UK profits	4.0	–	–
Unprovided deferred taxes on excess capital allowances	(2.8)	(2.0)	(0.7)
Lower effective tax on net foreign exchange gains	–	(1.2)	–
Effect of reduction in UK corporation tax rate on deferred tax provision	–	–	(0.1)
Lower effective tax on gain in MCI shares	–	–	(2.4)
Lower effective tax on gain on disposal of fixed asset investments and group undertakings	(8.3)	(1.2)	–
Prior year adjustments	(14.6)	–	–
Other	1.5	(0.3)	0.2
<b>Effective corporation tax rate</b>	<b>30.1</b>	<b>30.5</b>	<b>30.1</b>

Deferred taxation of £60 million (2000 – £60 million, 1999 – £30 million) arising on excess capital allowances was not provided in the year ended 31 March 2001.

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

	2001 £m	2000 £m	1999 £m
Excess capital allowances	(74)	(80)	1
Pension provisions	87	97	81
Other timing differences	14	(20)	(11)
	27	(3)	71
Prior year adjustments (a)	(111)	16	5
<b>Total deferred taxation charge (credit)</b>	<b>(84)</b>	<b>13</b>	<b>76</b>

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

## 11. Minority Interests

	2001 £m	2000 £m	1999 £m
Minority interests in profits (losses):			
Group	6	(15)	15
Associates	121	5	4
<b>Total minority interests</b>	<b>127</b>	<b>(10)</b>	<b>19</b>

## 12. Dividends

	2001 pence per share	2000 pence per share	1999 pence per share	2001 £m	2000 £m	1999 £m
Interim dividend paid	8.70	8.70	8.10	571	565	523
Proposed final dividend	–	13.20	12.30	–	861	799
<b>Total dividends</b>	<b>8.70</b>	<b>21.90</b>	<b>20.40</b>	<b>571</b>	<b>1,426</b>	<b>1,322</b>

## Notes to the financial statements

### 13. Earnings (loss) per share

The basic earnings (loss) 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 (loss) 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:

	2001 millions of shares	2000 millions of shares	1999 millions of shares
Basic	6,525	6,488	6,442
Dilutive ordinary shares from share options outstanding and shares held in trust	96	154	150
<b>Total diluted</b>	<b>6,621</b>	<b>6,642</b>	<b>6,592</b>

Options over 39 million shares were excluded from the calculation of the total diluted number of shares in the year ended 31 March 2001 because to do so would have been antidilutive.

The items in the calculation of earnings (loss) per share before goodwill amortisation and exceptional items in the years were:

	2001 pence per share	2000 pence per share	1999 pence per share	2001 £m	2000 £m	1999 £m
Profit on sale of group undertakings	9.4	1.9	–	619	126	–
Rates refunds relating to prior years	3.0	–	–	193	–	–
Goodwill impairment	(49.0)	–	–	(3,200)	–	–
Write off of subscriber acquisition costs	(2.1)	–	–	(139)	–	–
Viag Interkom write off of IT Systems	(0.7)	–	–	(43)	–	–
Interest receivable on rates refunds, relating to prior years	0.4	–	–	25	–	–
Costs relating to the closure of the BT Cellnet analogue network	–	(0.7)	–	–	(47)	–
Profit on sale of MCI shares	–	–	17.6	–	–	1,133
Provision against another fixed asset investment	–	–	(0.4)	–	–	(26)
Costs relating to the disengagement from MCI	–	(1.0)	(1.1)	–	(64)	(69)
Goodwill amortisation	(8.6)	(2.6)	(0.3)	(558)	(173)	(17)
<b>Total credit (charge) before tax and minority interest</b>	<b>(47.6)</b>	<b>(2.4)</b>	<b>15.8</b>	<b>(3,103)</b>	<b>(158)</b>	<b>1,021</b>
Tax charge attributable	(0.3)	(0.1)	(4.5)	(22)	(5)	(291)
Minority Interest	(0.3)	–	–	(21)	–	–
<b>Net credit (charge)</b>	<b>(48.2)</b>	<b>(2.5)</b>	<b>11.3</b>	<b>(3,146)</b>	<b>(163)</b>	<b>730</b>
Basic earnings (loss) per share/profit for the financial year after goodwill amortisation and exceptional items	(27.7)	31.7	46.3	(1,810)	2,055	2,983
Goodwill amortisation and exceptional charge (credit)	48.2	2.5	(11.3)	3,146	163	(730)
<b>Basic earnings per share/profit for the financial year before goodwill amortisation and exceptional items</b>	<b>20.5</b>	<b>34.2</b>	<b>35.0</b>	<b>1,336</b>	<b>2,218</b>	<b>2,253</b>

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

#### 14. Reconciliation of operating profit to operating cash flows

	2001 £m	2000 £m	1999 £m
Group operating profit	61	3,598	3,816
Depreciation	3,045	2,752	2,581
Goodwill amortisation and impairment	3,386	89	–
Increase in stocks	(67)	(48)	(8)
Increase in debtors	(432)	(1,175)	(410)
Increase in creditors	203	982	388
Decrease in provisions	(222)	(295)	(259)
Other	(87)	(54)	(73)
<b>Net cash inflow from operating activities</b>	<b>5,887</b>	<b>5,849</b>	<b>6,035</b>

#### 15. Management of liquid resources

	2001 £m	2000 £m	1999 £m
Purchase of short-term investments and payments into short-term deposits over 3 months	(1,344)	(3,178)	(2,973)
Sale of short-term investments and withdrawals from short-term deposits over 3 months	1,765	3,850	1,735
Net movement of short-term investments and short-term deposits under 3 months not repayable on demand	(901)	564	(1,209)
<b>Net cash inflow (outflow) from management of liquid resources</b>	<b>(480)</b>	<b>1,236</b>	<b>(2,447)</b>

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

#### 16. Acquisitions and disposals

##### Acquisition of subsidiary companies

Year ended 31 March 2001		Viag Interkom (a) £m	Telfort (c) £m	Other £m	Total £m	
Consideration:						
Cash		8,770	1,207	160	10,137	
Carrying value of joint venture wholly acquired		479	235	–	714	
<b>Total</b>		<b>9,249</b>	<b>1,442</b>	<b>160</b>	<b>10,851</b>	
Year ended 31 March 2000	Cellnet Group(e) £m	Esat(f) £m	Yellow Book (USA) (g) £m	Syntegra (USA) (h) £m	Other £m	Total £m
Consideration:						
Cash	3,014	179	401	213	327	4,134
Deferred	–	1,167	–	–	45	1,212
Loan notes 2000/2009	159	–	–	–	–	159
Other loan notes	–	174	14	–	14	202
Carrying value of associate wholly acquired	–	–	–	–	23	23
<b>Total</b>	<b>3,173</b>	<b>1,520</b>	<b>415</b>	<b>213</b>	<b>409</b>	<b>5,730</b>
Year ended 31 March 1999		Concert (i) £m	MDT (i) £m	Other £m	Total £m	
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>	

## Notes to the financial statements

### 16. Acquisitions and disposals (continued)

(a) On 20 February 2001, the group took full control of Viag Interkom GmbH & Co (Viag Interkom). Under an agreement announced in August 2000, the group purchased from E.ON its 45% interest in Viag Interkom by means of a put option priced at €7.25 billion (£4,562 million). In January 2001, the group acquired the 10% interest in the company previously owned by Telenor for €1.6 billion (£1,032 million). As part of the transactions, the group repaid loans due by Viag Interkom to E.ON and Telenor totalling £3,165 million. The total cash consideration amounted to £8,770 million, including £11 million expenses.

	Book and fair values £m
Fixed assets	6,728
Current assets	619
Current liabilities	(585)
Long-term liabilities	(2,505)
Group's share of original book value of net assets	4,257
Goodwill	4,992
<b>Total cost</b>	<b>9,249</b>
Consideration:	
Cash	8,770
Carrying value of joint venture wholly acquired	479
<b>Total</b>	<b>9,249</b>

Since the acquisition was made towards the end of the year ended 31 March 2001, the fair values of the identifiable assets and liabilities have been determined on a provisional basis. Goodwill arising on acquisition of Viag Interkom is being amortised over 20 years.

The consolidated results of Viag Interkom for the year ended 31 December 2000 and for the period from 1 January 2001 to 19 February 2001, on the basis of its accounting policies, are summarised as follows:

	Period 1 January to 19 February 2001 £m	Year ended 31 December 2000 £m
Group turnover	216	856
Total operating loss	(108)	(686)
Loss before taxation	(160)	(784)
Taxation	-	-
Minority interests	-	-
Loss for the financial period	(160)	(784)

## 16. Acquisitions and disposals (continued)

### (b) Other subsidiary companies

During the year ended 31 March 2001, the acquisition of interests in other subsidiary companies and the consideration given comprised:

Year ended 31 March 2001	Telfort(c) £m	Other £m	Total £m
Minority Interest	–	31	31
Fixed assets	496	–	496
Current assets	221	16	237
Current liabilities	(261)	–	(261)
Group share of original book value of net assets (liabilities) and fair value to group	456	47	503
Goodwill	986	113	1,099
<b>Total cost</b>	<b>1,442</b>	<b>160</b>	<b>1,602</b>
Consideration:			
Cash	1,207	160	1,367
Carrying value of joint venture wholly acquired	235	–	235
<b>Total</b>	<b>1,442</b>	<b>160</b>	<b>1,602</b>

(c) On 22 June 2000, BT received regulatory approval to acquire the remaining 50% interest of Telfort BV, its provider of fixed and mobile services to businesses and consumers in The Netherlands, that it did not already own for £1,207 million. Goodwill arising on the acquisition of Telfort BV is being amortised over 20 years. Telfort BV's loss after tax for the year ended 31 December 1999 was £141 million and its loss for the six months ended 30 June 2000 was £86 million.

(d) During the year ended 31 March 2000, the acquisition of the interests in subsidiary companies and the consideration given comprised:

	Cellnet Group(e) £m	Esat(ff) £m	Yellow Book USA(g) £m	Syntegra (USA)(h) £m	Other £m	Total £m
Minority interest	176	(2)	–	1	40	215
Fixed assets		428	6	12	157	603
Current assets		137	49	48	68	302
Current liabilities		(137)	(21)	(88)	(108)	(354)
Long-term liabilities		(487)	–	–	(62)	(549)
Provisions for liabilities and charges		–	–	–	(2)	(2)
Group share of original book value of net assets (liabilities)	176	(61)	34	(27)	93	215
Fair value adjustment to achieve consistency of accounting policies	–	(115)	–	–	–	(115)
Other fair value adjustments	–	(69)	–	–	–	(69)
Fair value to the group	176	(245)	34	(27)	93	31
Goodwill	2,997	1,765	381	240	316	5,699
<b>Total cost</b>	<b>3,173</b>	<b>1,520</b>	<b>415</b>	<b>213</b>	<b>409</b>	<b>5,730</b>
Consideration:						
Cash	3,014	179	401	213	327	4,134
Deferred	–	1,167	–	–	45	1,212
Loan notes 2000/2009	159	–	–	–	–	159
Other loan notes	–	174	14	–	14	202
Carrying value of associate wholly acquired	–	–	–	–	23	23
<b>Total</b>	<b>3,173</b>	<b>1,520</b>	<b>415</b>	<b>213</b>	<b>409</b>	<b>5,730</b>

## Notes to the financial statements

### 16. Acquisitions and disposals (continued)

**(e)** On 10 November 1999, BT acquired the 40% interest in Cellnet Group Limited, its mobile cellular phone operator, that it did not already own for £3,150 million, excluding £23 million expenses. Goodwill arising on acquisition of Cellnet Group Limited is being amortised over 20 years.

The consolidated results of Cellnet Group Limited for the years ended 31 March 1999 and 2000 are summarised as follows:

	2000 £m	1999 £m
Group turnover	2,435	1,410
Total operating profit	97	165
Exceptional items included in total operating profit:		
Impairment of analogue equipment and network closure costs (note 5)	(47)	–
Profit before taxation	49	117
Taxation	(23)	(39)
Minority interests	(2)	–
Profit for the financial year	24	78

**(f)** At the end of March 2000, BT acquired control of Esat Telecom Group plc (Esat), a leading telecommunications operator in Ireland. An interest comprising 70% of the company was acquired under a public offer, the consideration for which passed in April 2000. In January 2000, BT acquired 13% of the company from its then chairman and chief executive for US\$287 million (£174 million) and a further 12% interest from a major shareholder for US\$271 million (£179 million). Of the total consideration, £179 million was settled in cash in January 2000, £1,029 million in cash in April 2000 and £187 million was satisfied by loan notes repayable at the option of the holder not later than 30 April 2005. The balance of the consideration covered the remaining interest which was compulsorily acquired and compensation to employee share option holders. Goodwill arising on acquisition of Esat is being amortised over 20 years.

Esat holds a 49.5% interest in Esat Digifone. In January 2000, BT acquired a further 1% interest in this company for £15 million. At 31 March 2000 and 2001, Telenor owned the remaining 49.5% interest. In the table above, the assets acquired and the liabilities assumed comprise those of both Esat and Esat Digifone. Since BT acquired control just before the 2000 financial year end, only a preliminary assessment of the fair values of Esat's assets and liabilities, which were based on 31 December 1999 balance sheets, had been undertaken. The fair value adjustment relates to an uplift of £69 million to the carrying value of Esat's debt to its market value on 30 March 2000. During the year ended 31 March 2001, in the final assessment of fair values, the fair values of the net liabilities were increased by £75 million, the fair value of the consideration was increased by £38 million and goodwill increased by £113 million to £1,878 million.

Esat incurred a loss after tax of IR£120 million (£95 million) for the year ended 31 December 1999.

Under an agreement with Telenor made in 2000, Telenor had the right to exchange its 49.5% interest in Esat Digifone for a 33% interest in Esat and a right to purchase from BT such additional shares as would result in Telenor having an almost 50% interest in Esat at a total price of US\$624 million plus interest. If Telenor did not exercise this right, Telenor agreed to sell its interest in Esat Digifone to the group for US\$1,238 million. In February 2001, Telenor decided to sell its interest in Esat Digifone to the group and this transaction was completed in April 2001 for £856 million.

**(g)** On 31 August 1999, BT acquired Yellow Book USA, an independent classified directory publisher in the USA, for £415 million. Yellow Book's loss after tax for the year ended 31 October 1998 was £5 million.

**(h)** On 31 August 1999, BT acquired Syntegra (USA) (previously named Control Data Systems), an international systems integration company based in the USA, for £213 million. Goodwill arising on acquisition of Syntegra (USA) is being amortised over 20 years. Syntegra (USA)'s loss after tax for the year ended 31 December 1998 was £37 million.

## 16. Acquisitions and disposals (continued)

(i) During the year ended 31 March 1999, the acquisition of the interests in Concert Communications on 15 September 1998, Martin Dawes Telecommunications (MDT) (renamed Lumina Limited) 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>

In September 1998, the group acquired MCI's 24.9% interest in Concert Communications Company (Concert Communications) for £607 million. Goodwill of £568 million arose on this transaction (refer below). This goodwill was transferred into the Concert global venture with AT&T Corp on 5 January 2000.

MDT's profit after tax for the year to 31 December 1998 was £2 million. Goodwill arising on acquisition of MDT is being written off over 10 years.

### Formation of principal joint venture

On 5 January 2000, the company and AT&T formed their global venture named Concert for the two companies' trans-border communications activities. The venture is jointly owned and controlled. The group contributed the majority of its cross-border international networks, its international traffic, its business with selected multinational customers and its international products for business customers, as well as Concert Communications. AT&T contributed a similar set of assets and businesses.

The book value of the assets contributed by the group to the joint venture comprised:

	£m
Intangible assets	568
Tangible fixed assets	870
Total fixed assets	1,438
Current assets	123
Current liabilities	(183)
Net current assets (liabilities)	(60)
Provisions for liabilities and charges	(13)
Long-term debt owed to the BT group	(1,169)
<b>Net assets contributed</b>	<b>196</b>

## Notes to the financial statements

### 16. Acquisitions and disposals (continued)

The acquisition of the group's 50% interest in Concert comprised:

	£m
Group's share of Concert's opening net assets (US GAAP)	631
Group's share of US to UK GAAP adjustments	(180)
Group's share of Concert's opening net assets (UK GAAP)	451
Net assets contributed by the group to the joint venture	(196)
Transition costs	(96)
Unrealised gain on the contribution	159

The gain on the transfer of the assets is unrealised since the group continues to maintain a 50% interest in the assets contributed. This gain has been taken to a non-distributable reserve and is shown in the statement of total recognised gains and losses for the year ended 31 March 2000. There is no tax charge on the gain.

During the year ended 31 March 2001, the group's share of Concert's opening net assets was amended, due to certain true up contributions, reducing the unrealised gain by £49 million. This is shown in the statement of total recognised gains and losses for the year ended 31 March 2001.

### Acquisition of associates and joint ventures

Year ended 31 March 2001			Telenordia (j) £m	J-Phone (k) £m	
Group share of original book value of net assets (net liabilities)			10	5	
Fair value adjustment to achieve consistency of accounting policies			–	–	
Fair value to the group			10	5	
Goodwill			84	–	
<b>Total cost</b>			<b>94</b>	<b>5</b>	
Year ended 31 March 2000	Japan Telecom (l) £m	AT&T Canada (m) £m	Rogers Cantel Mobile Communi- cations (m) £m	Smartone Mobile Communi- cations (m) £m	Other (m) £m
Group share of original book value of net assets	871	101	11	96	34
Fair value adjustment to achieve consistency of accounting policies	(49)	–	–	–	–
Fair value to the group	822	101	11	96	34
Goodwill	432	259	288	145	51
<b>Total cost</b>	<b>1,254</b>	<b>360</b>	<b>299</b>	<b>241</b>	<b>85</b>
Year ended 31 March 1999			Maxis Communi- cations (n) £m	LG Telecom (n) £m	Airtel Movil (o) £m
Group share of original book value of net assets			60	98	62
Fair value adjustment to achieve consistency of accounting policies			(9)	(58)	(19)
Fair value to the group			51	40	43
Goodwill			228	194	158
<b>Total cost</b>			<b>279</b>	<b>234</b>	<b>201</b>

#### (j) Telenordia

On 8 September 2000, BT increased its existing 33% interest in Telenordia, based in Sweden, to 50% for £94 million. Goodwill is being amortised over 20 years.

## **16. Acquisitions and disposals (continued)**

### **(k) J-Phone**

On 8 May 2000, the group acquired a 40% interest in a company, with Japan Telecom owning the other 60% interest, which holds a 74% interest in J-Phone Communications Co Limited (JPC). JPC in turn acquired controlling interests, averaging 51%, in nine regional Japanese mobile phone J-Phone companies. These J-Phone companies merged into three larger regional companies during the year ended 31 March 2001. Japan Telecom also held a direct 18% interest, in the J-Phone companies.

During the year ended 31 March 2001, the group held an effective 23% interest in J-Phone. The impact of the combined J-Phone/Japan Telecom ownership structure, however, led the group to reflect 63% of the J-Phone results at the turnover and operating profit levels and all items below including interest and taxation, in accordance with the requirements of FRS 9. In May 2001, the group agreed to sell this interest (see note 29).

### **(l) Japan Telecom**

On 31 August 1999, the group completed its acquisition of a 30% interest, jointly with AT&T Corp, in Japan Telecom, a leading Japanese telecommunications company. Japan Telecom is held through a BT subsidiary company, 66.7% BT owned and 33.3% AT&T owned. The group has a 20% economic interest. AT&T's economic interest is shown within the group's minority interests. Goodwill on this acquisition is being amortised over 20 years.

On 31 March 2001, the 30% interest in Japan Telecom had a market value equivalent to £1,607 million (2000 – £3,398 million), compared with a carrying value of £1,282 million (2000 – £1,345 million). In April 2001, the group's direct interest in Japan Telecom was reduced to its 20% economic interest and in May 2001, the group agreed to sell this interest (see note 29).

### **(m) AT&T Canada, Rogers Cantel Mobile Communications, SmarTone Mobile Communications and other investments**

On 16 August 1999, the group acquired a 30% interest in an AT&T subsidiary undertaking which holds a 31% interest in AT&T Canada Corporation, a fixed network telecommunications company operating in Canada. The resulting economic interest of 9.3% cost £360 million. On 31 March 2001, the 9.3% interest in AT&T Canada had a market value equivalent to £267 million (2000 – £477 million), compared with a carrying value of £352 million (2000 – £345 million). From 1 April 2000, the group decided it no longer exercised significant influence over this company and the investment was reclassified as an other investment.

On 16 August 1999, the group acquired jointly with AT&T an approximate 33% interest in Rogers Cantel Mobile Communications Inc, a cellular mobile phone company operating in Canada. The resulting economic interest of approximately 17% cost £299 million. On 31 March 2001, the 17% interest in Rogers Cantel Mobile Communications Inc had a market value of £191 million (2000 – £520 million), compared with a carrying value of £285 million (2000 – £298 million).

On 10 May 1999, the group acquired a 20% interest in SmarTone Mobile Communications Limited, a cellular mobile phone company operating in Hong Kong. On 31 March 2001, the 20% interest in SmarTone Mobile Communications Limited had a market value of £107 million (2000 – £277 million) compared with a carrying value of £243 million (2000 – £230 million). Goodwill arising on the acquisition of Rogers Cantel and SmarTone is being amortised over 20 years.

### **(n) Maxis Communications and LG Telecom**

On 9 October 1998, the group completed its acquisition of a 33.3% interest in Maxis Communications, a leading Malaysian telecommunications company. On 14 October 1998, the group completed its acquisition of a 23.5% interest in LG Telecom, a major Korean mobile telecommunications company. As stated in note 29, the group agreed in principle in May 2001 to sell its interest in Maxis Communications.

### **(o) Airtel Movil**

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 £55 million. Goodwill on this acquisition is being amortised over 20 years. In May 2001, the group agreed to sell this interest (see note 29).

## Notes to the financial statements

### 16. Acquisitions and disposals (continued)

#### (p) 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\$6,936 million was equivalent to £4,133 million 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 £26 million.

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.

At 31 March 1998, the group's investment in MCI was stated at £813 million. Goodwill, amounting to £2,214 million 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 (see note 7).

### 17. Net debt

	At 1 April 2000 £m	Cash flow £m	Acquisition or disposal of subsidiary undertakings £m	Other non-cash changes £m	Currency movement £m	At 31 March 2001 £m
<b>Analysis of net debt</b>						
Cash in hand and at bank	253	159	–	–	–	<b>412</b>
Overnight deposits	41	(21)	–	–	–	<b>20</b>
Bank overdrafts	(138)	(10)	–	–	–	<b>(148)</b>
	156	128	–	–	–	<b>284</b>
Other current assets investments	2,010	480	48	16	(17)	<b>2,537</b>
<b>Short-term investments and cash, less bank overdrafts</b>	<b>2,166</b>	<b>608</b>	<b>48</b>	<b>16</b>	<b>(17)</b>	<b>2,821</b>
Debt due within one year, excluding bank overdrafts	(5,512)	(5,544)	(62)	(804)	(66)	<b>(11,988)</b>
Debt due after one year	(5,354)	(14,006)	(34)	562	57	<b>(18,775)</b>
<b>Total debt, excluding bank overdrafts</b>	<b>(10,866)</b>	<b>(19,550)</b>	<b>(96)</b>	<b>(242)</b>	<b>(9)</b>	<b>(30,763)</b>
<b>Net debt</b>	<b>(8,700)</b>	<b>(18,942)</b>	<b>(48)</b>	<b>(226)</b>	<b>(26)</b>	<b>(27,942)</b>

	2001 £m	2000 £m	1999 £m
<b>Reconciliation of net cash flow to movement in net debt</b>			
Increase in cash in the year	<b>128</b>	54	67
Cash (inflow) outflow from (increase) decrease in debt	<b>(19,550)</b>	(5,400)	632
Cash (inflow) outflow from (decrease) increase in liquid resources	<b>480</b>	(1,236)	2,447
Decrease (increase) in net debt resulting from cash flows	<b>(18,942)</b>	(6,582)	3,146
Currency and translation movements	<b>(26)</b>	(124)	(2)
Debt assumed on acquisitions	<b>(48)</b>	(971)	(94)
Other non-cash movements	<b>(226)</b>	(70)	(26)
Decrease (increase) in net debt in the year	<b>(19,242)</b>	(7,747)	3,024
Net debt at 1 April	<b>(8,700)</b>	(953)	(3,977)
<b>Net debt at 31 March</b>	<b>(27,942)</b>	(8,700)	(953)

## 18. Intangible assets

	Goodwill(a) £m	Telecommuni- cation licences(b) £m	Total £m
<b>Cost</b>			
At 1 April 2000	5,864	3	5,867
Additions	–	4,315	4,315
Acquisitions of subsidiary undertakings	6,116	5,488	11,604
Adjustments	99	3	102
Disposals and transfers	(4)	–	(4)
Currency movements	35	(63)	(28)
<b>Total cost at 31 March 2001</b>	<b>12,110</b>	<b>9,746</b>	<b>21,856</b>
<b>Amortisation</b>			
At 1 April 2000	89	1	90
Charge for the year – amortisation	373	13	386
– impairment (c)	3,000	–	3,000
<b>Total amortisation at 31 March 2001</b>	<b>3,462</b>	<b>14</b>	<b>3,476</b>
<b>Net book value at 31 March 2001</b>	<b>8,648</b>	<b>9,732</b>	<b>18,380</b>
Net book value at 31 March 2000	5,775	2	5,777
<p>(a) The goodwill arising on acquisitions of subsidiary undertakings in the year ended 31 March 2001 mainly arose from the acquisition in June 2000 of the 50% interest in Telfort which the group did not already own (£986 million) and the acquisition in January and February 2001 of the 55% interest in Viag Interkom which the group did not already own (£4,992 million). The consideration for the acquisition of the 55% interest in Viag Interkom was negotiated in August 2000. (See note 16.)</p> <p>(b) The telecommunication licences mainly comprise third generation mobile licences in the UK and Germany. In April 2000, the group won a third generation mobile licence in the UK government's auction. The licence, which cost £4,030 million, will be amortised over its remaining 20-year term from the date of launch of services using the licensed radio spectrum. In August 2000, Viag Interkom won a third generation mobile licence in the German government's auction. This licence, which cost £5,164 million, will be similarly amortised over its remaining 20-year term from the date of launch of service.</p> <p>(c) In accordance with FRS 11 (Impairment of fixed assets and goodwill), the carrying values of the group's subsidiary undertakings in Germany, Ireland, The Netherlands and the UK at 31 March 2001 have been compared to their recoverable amounts, represented by their value in use to the group.</p> <p>The value in use has been derived from discounted cash flow projections which cover the ten years from 1 April 2001. The projections cover a ten year period as the directors consider that the growth in these businesses will exceed the average growth rate of the countries concerned over ten years. Also, the development of the technology and assets required for such growth means ten year projections would more fairly reflect their long-term values. After the ten year period, the projections use a long-term growth rate compatible with projections for the countries concerned. The discount rate used to arrive at this calculation was 10% on a pre-tax basis.</p> <p>The review has resulted in an exceptional charge to operating costs of £3,000 million in respect of Viag Interkom. The charge has been allocated to the goodwill arising on the acquisition of the remaining 55% interest in the company that was purchased during the year. The remaining goodwill of £1,921 million will be amortised over 20 years in accordance with the group's accounting policies.</p>			

## Notes to the financial statements

### 19. Tangible fixed assets

	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 2000	3,135	31,295	1,233	35,663
Acquisitions of subsidiary undertakings	87	1,924	188	2,199
Additions	40	998	3,951	4,989
Transfers	178	3,195	(3,373)	–
Other disposals and adjustments	40	(1,956)	(33)	(1,949)
<b>Total cost at 31 March 2001</b>	<b>3,480</b>	<b>35,456</b>	<b>1,966</b>	<b>40,902</b>
<b>Depreciation</b>				
Balances at 1 April 2000	1,424	16,142	–	17,566
Acquisitions of subsidiary undertakings	22	438	–	460
Charge for the year	136	2,909	–	3,045
Other disposals and adjustments	(16)	(1,714)	–	(1,730)
<b>Total depreciation at 31 March 2001</b>	<b>1,566</b>	<b>17,775</b>	<b>–</b>	<b>19,341</b>
<b>Net book value at 31 March 2001</b>	<b>1,914</b>	<b>17,681</b>	<b>1,966</b>	<b>21,561</b>
Engineering stores	–	–	64	64
<b>Total tangible fixed assets at 31 March 2001</b>	<b>1,914</b>	<b>17,681</b>	<b>2,030</b>	<b>21,625</b>
Net book value at 31 March 2000	1,711	15,153	1,233	18,097
Engineering stores	–	–	66	66
<b>Total tangible fixed assets at 31 March 2000</b>	<b>1,711</b>	<b>15,153</b>	<b>1,299</b>	<b>18,163</b>

	Land and buildings(a) £m	Plant and equipment £m	Assets in course of construction £m	Total £m
<b>Company</b>				
<b>Cost</b>				
Balances at 1 April 2000	1,093	27,899	1,027	30,019
Additions	–	448	3,032	3,480
Transfers	106	2,693	(2,799)	–
Disposals and adjustments	(210)	(1,314)	(61)	(1,585)
<b>Total cost at 31 March 2001</b>	<b>989</b>	<b>29,726</b>	<b>1,199</b>	<b>31,914</b>
<b>Depreciation</b>				
Balances at 1 April 2000	451	14,658	–	15,109
Charge for the year	42	2,430	–	2,472
Disposals and adjustments	(107)	(1,111)	–	(1,218)
<b>Total depreciation at 31 March 2001</b>	<b>386</b>	<b>15,977</b>	<b>–</b>	<b>16,363</b>
<b>Net book value at 31 March 2001</b>	<b>603</b>	<b>13,749</b>	<b>1,199</b>	<b>15,551</b>
Engineering stores	–	–	62	62
<b>Total tangible fixed assets at 31 March 2001</b>	<b>603</b>	<b>13,749</b>	<b>1,261</b>	<b>15,613</b>
Net book value at 31 March 2000	642	13,241	1,027	14,910
Engineering stores	–	–	66	66
<b>Total tangible fixed assets at 31 March 2000</b>	<b>642</b>	<b>13,241</b>	<b>1,093</b>	<b>14,976</b>

## 19. Tangible fixed assets (continued)

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
<i>(a)</i> The net book value of land and buildings comprised:				
Freehold	1,514	1,327	319	365
Long leases (over 50 years unexpired)	170	182	119	120
Short leases	230	202	165	157
<b>Total net book value of land and buildings</b>	<b>1,914</b>	<b>1,711</b>	<b>603</b>	<b>642</b>

	Group	
	2001 £m	2000 £m
<i>(b)</i> Expenditure on tangible fixed assets comprised:		
Plant and equipment		
Transmission equipment	2,295	1,563
Exchange equipment	479	413
Other network equipment	1,180	703
Computers and office equipment	574	502
Motor vehicles and other	251	257
Land and buildings	210	229
Increase (decrease) in engineering stores	(3)	13
<b>Total expenditure on tangible fixed assets</b>	<b>4,986</b>	<b>3,680</b>

## Notes to the financial statements

### 20. Fixed asset investments

	Interests in associates and joint ventures(b)					Total £m
	Shares £m	Loans £m	Share of post acquisition profits (losses) £m	Other participating interests £m	Other investments (c) £m	
<b>Group</b>						
<b>Cost</b>						
Balances at 1 April 2000	6,247	1,073	(1,049)	122	619	7,012
Additions	1,882	3,955	–	66	199	6,102
Joint ventures becoming subsidiary companies	(2,718)	(3,321)	1,348	–	–	(4,691)
Disposals	(67)	–	12	–	(118)	(173)
Share of losses less retained profits for the year	–	–	(569)	–	–	(569)
Repayments and other transfers	(463)	(956)	–	(31)	367	(1,083)
Currency movements	195	(7)	(14)	–	26	200
<b>Balances at 31 March 2001</b>	<b>5,076</b>	<b>744</b>	<b>(272)</b>	<b>157</b>	<b>1,093</b>	<b>6,798</b>
<b>Provisions and amounts written off</b>						
Balances at 1 April 2000	(1,046)	–	–	–	(88)	(1,134)
Goodwill amortisation for the year	(185)	–	–	–	–	(185)
Exceptional item relating to impairment in goodwill	(200)	–	–	–	–	(200)
Disposals	21	–	–	–	3	24
Transfers	24	–	–	–	(8)	16
Increase in the year	(6)	–	–	–	(109)	(115)
<b>Balances at 31 March 2001</b>	<b>(1,392)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(202)</b>	<b>(1,594)</b>
<b>Net book value at 31 March 2001</b>	<b>3,684</b>	<b>744</b>	<b>(272)</b>	<b>157</b>	<b>891</b>	<b>5,204</b>
Net book value at 31 March 2000	5,201	1,073	(1,049)	122	531	5,878

	Subsidiary undertakings(a)		Associates and joint ventures(a) £m	Other participating interests £m	Other investments £m	Total £m
	Shares £m	Loans £m				
<b>Company</b>						
<b>Cost</b>						
Balances at 1 April 2000	19,258	9	741	122	397	20,527
Additions	24,272	219	885	66	5	25,447
Disposals	(5,775)	–	(62)	–	(5)	(5,842)
Repayments and other transfers	–	(219)	(913)	(31)	–	(1,163)
Currency movements	–	–	5	–	–	5
<b>Balances at 31 March 2001</b>	<b>37,755</b>	<b>9</b>	<b>656</b>	<b>157</b>	<b>397</b>	<b>38,974</b>
<b>Provisions and amounts written off</b>						
Balances at 1 April 2000	(253)	–	(15)	–	(221)	(489)
Increase in the year	(4,263)	–	–	–	(22)	(4,285)
Disposals and transfers	182	–	–	–	3	185
<b>Balances at 31 March 2001</b>	<b>(4,334)</b>	<b>–</b>	<b>(15)</b>	<b>–</b>	<b>(240)</b>	<b>(4,589)</b>
<b>Net book value at 31 March 2001</b>	<b>33,421</b>	<b>9</b>	<b>641</b>	<b>157</b>	<b>157</b>	<b>34,385</b>
Net book value at 31 March 2000	19,005	9	726	122	176	20,038

#### (a) Subsidiary undertakings, associates and joint ventures

Details of the principal operating subsidiary undertakings, joint ventures and associates are set out on pages 130 and 131.

## 20. Fixed asset investments (continued)

### (b) Associates and joint ventures

	2001 £m	2000 £m
Associates:		
Goodwill	2,439	1,578
Loans	7	–
Share of other net assets (liabilities)	(217)	1,061
Total – associates	2,229	2,639
Joint ventures:		
Goodwill	526	728
Loans	737	1,073
Share of other net assets	664	785
Total – joint ventures	1,927	2,586
Net book value at 31 March	4,156	5,225

The group's proportionate share of its associates and joint ventures' assets and liabilities, in aggregate, at 31 March was as follows:

	2001 £m	2000 £m
Fixed assets	8,257	4,446
Current assets	5,726	1,833
Current liabilities	(7,398)	(1,656)
Net current assets (liabilities)	(1,672)	177
Non-current liabilities	(3,771)	(1,161)
Minority interests	(714)	(45)
Share of net assets	2,100	3,417

The group's proportionate share of its associates and joint ventures' losses less profits before taxation totalled £667 million (2000 – £476 million, 1999 – £367 million) and its share of their losses less profits attributable to shareholders totalled £895 million for the year ended 31 March 2001 (2000 – £521 million, 1999 – £379 million).

At 31 March 2001, the group had a 74.5% interest in e-escape Limited, a UK telecommunications service provider, having acquired an additional 25.5% on 19 December 2000. This additional interest was acquired with the intention of selling it to another investor and not for holding as a long-term investment. For this reason, the investment in this company has continued to be accounted for on the equity basis. For the year ended 31 March 2001, e-escape's turnover was £3 million and it incurred a loss after taxation of £9 million. Purchases from the group amounted to £3 million, and the balances due to the group at 31 March 2001 was £12 million. The net book value of the investment in e-escape is £nil at 31 March 2001.

### (c) Other investments

Other investments include ordinary shares of the company, with a net book value of £97 million (2000 – £117 million) and a market value of £97 million (2000 – £227 million), held in trust for the BT Incentive Share Scheme, the BT Retention Share Scheme, the BT Executive Share Plan, the BT Performance Share Plan and the BT Deferred Bonus Plan (note 33). They also include ordinary shares of the company, with a net book value of £64 million and a market value of £122 million, held in trust for employee sharesave schemes. In the group balance sheet at 31 March 2001, listed investments were held with a book value of £588 million (2000 – £297 million) and a market value of £489 million (2000 – £775 million).

## Notes to the financial statements

### 21. Debtors

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Trade debtors (a)	3,379	2,487	2,196	2,056
Amounts owed by subsidiary undertakings	–	–	1,333	368
Amounts owed by joint ventures (trading)	532	602	464	322
Amounts owed by associates (trading)	5	6	–	–
Other debtors	506	596	352	589
Accrued income	1,420	1,298	1,218	1,208
Prepayments	418	252	168	135
<b>Total debtors</b>	<b>6,260</b>	<b>5,241</b>	<b>5,731</b>	<b>4,678</b>

(a) The group's trade debtors are stated after deducting £487 million (2000 – £421 million) for doubtful debts. The amount charged to the group profit and loss account for doubtful debts for the year ended 31 March 2001 was £227 million (2000 – £264 million, 1999 – £231 million).

### 22. Current asset investments

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Listed investments	85	419	5	5
Short-term loans to subsidiary undertakings	–	–	3,965	1,466
Other short-term deposits and investments	2,472	1,632	1,655	277
<b>Total current asset investments</b>	<b>2,557</b>	<b>2,051</b>	<b>5,625</b>	<b>1,748</b>
Market value of listed investments	85	420	5	5

## 23. Loans and other borrowings

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
US dollar 8.625% notes 2030(a)	1,928	–	1,928	–
5.75% bonds 2028 (less unamortised discount £4 million (2000 – £5 million))	596	595	596	595
3.5% indexed linked notes 2025 (less unamortised discount of £5 million)	252	–	252	–
8.625% bonds 2020 (less unamortised discount £4 million (2000 – £4 million))	296	296	296	296
7.5% notes 2016(a) (less unamortised discount of £10 million)	690	–	690	–
Euro 6.875% notes 2011(a) (less unamortised discount of £14 million)	1,385	–	1,385	–
US dollar 8.125% notes 2010(a)	2,073	–	2,073	–
US dollar 8.765% bonds 2009	141	125	–	–
Euro 11.875% senior notes 2009 (including unamortised premium £26 million (2000 – £28 million))	134	133	–	–
US dollar 11.875% senior notes 2008 (including unamortised premium £13 million (2000 – £17 million))	126	112	–	–
US dollar 12.5% senior deferred coupon notes 2007 (less unamortised discount £3 million (2000 – £13 million))	138	116	–	–
US dollar 7% notes 2007 (less unamortised discount £3 million (2000 – £3 million))	605	624	605	624
12.25% bonds 2006	229	229	229	229
7.125% notes 2006(a) (less unamortised discount of £4 million)	396	–	396	–
Euro 6.125% notes 2006(a) (less unamortised discount of £10 million)	1,855	–	1,855	–
US dollar 7.625% notes 2005(a)	2,140	–	2,140	–
US dollar 6.75% bonds 2004	604	627	604	627
Euro 5.625% notes 2004(a) (less unamortised discount of £5 million)	1,083	–	1,083	–
US dollar floating rate notes 2003(a)	761	–	761	–
12.25% bonds 2003	180	180	180	180
7.125% bonds 2003 (less unamortised discount £1 million (2000 – £2 million))	499	498	499	498
Euro floating rate notes 2003(a) (less unamortised discount of £3 million)	619	–	619	–
US dollar 6.75% notes 2002 (less unamortised discount £3 million (2000 – £5 million))	907	936	907	936
<b>Total listed bonds, debentures and notes</b>	<b>17,637</b>	<b>4,471</b>	<b>17,098</b>	<b>3,985</b>
Lease finance	270	9	–	1
Bank loans due 2000-2009 (average effective interest rate 9.6%)	637	827	–	–
Euro floating rate note 2000-2005	204	172	–	–
Floating rate note 2000-2009 (average effective interest rate 5.4%)	141	159	141	159
Other loans	268	245	115	112
Bank overdrafts and other short-term borrowings	1,041	237	2,522	1,078
Euro Medium Term Notes	7,219	–	7,219	–
Commercial paper	3,494	4,884	3,494	4,884
Loans from subsidiary undertakings	–	–	8,704	7,168
<b>Total loans and other borrowings</b>	<b>30,911</b>	<b>11,004</b>	<b>39,293</b>	<b>17,387</b>

(a) The interest rate payable on these notes will be subject to adjustment from time to time if either Moody's or Standard and Poor's (S&P) reduces the rating ascribed to the group's senior unsecured debt below A3 in the case of Moody's or below A minus in the case of S&P. In this event, the interest rate payable on the notes and the spread applicable to the floating notes will be increased by 0.25% for each ratings category adjustment by each ratings agency. In addition, if Moody's or S&P subsequently increase the rating ascribed to the group's senior unsecured debt, then the interest rate then payable on notes and the spread applicable to the floating notes will be decreased by 0.25% for each rating category upgrade by each rating agency, but in no event will the interest rate be reduced below the initial interest rate reflected in the table above.

## Notes to the financial statements

### 23. Loans and other borrowings (continued)

Apart from the lease finance all borrowings at 31 March 2001 are unsecured. Lease finance is repayable by instalments.

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Repayments fall due as follows:				
Within one year, or on demand	12,136	5,650	21,201	12,551
Between one and two years	1,933	12	1,906	–
Between two and three years	2,430	1,225	2,403	1,190
Between three and four years	869	589	844	558
Between four and five years	4,245	895	4,225	867
After five years	9,298	2,633	8,714	2,221
Total due for repayment after more than one year	18,775	5,354	18,092	4,836
<b>Total loans and other borrowings</b>	<b>30,911</b>	<b>11,004</b>	<b>39,293</b>	<b>17,387</b>

The effect of the change in the group's accounting policy relating to the group's loans and borrowings as disclosed in note 1, is that the total loans and other borrowings disclosed at 31 March 2001 are £170 million lower than they would be prior to this change. Prior to the change in policy the total loans and other borrowings would be £31,081 million.

### 24. Other creditors

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Trade creditors	3,287	2,416	2,139	1,801
Amounts owed to subsidiary undertakings	–	–	1,968	762
Amounts owed to joint ventures (trading)	504	747	469	504
Corporation taxes	625	757	122	499
Other taxation and social security	379	377	307	349
Other creditors (a)	1,603	2,556	675	823
Accrued expenses	948	558	820	490
Deferred income	1,251	963	979	853
Dividends	–	861	–	861
<b>Total other creditors</b>	<b>8,597</b>	<b>9,235</b>	<b>7,479</b>	<b>6,942</b>

(a) Group includes Esat purchase consideration of £1,167 million at 31 March 2000.

### 25. Provisions for liabilities and charges

	Deferred taxation(a) £m	Pension provisions £m	Other provisions(b) £m	Total £m
<b>Group</b>				
Balances at 1 April 2000	354	629	73	1,056
Charged (credited) against profit for the year	(84)	326	52	294
Utilised in the year	–	(620)	(7)	(627)
<b>Total provisions at 31 March 2001</b>	<b>270</b>	<b>335</b>	<b>118</b>	<b>723</b>
<b>Company</b>				
Balances at 1 April 2000	152	629	21	802
Charged (credited) against profit for the year	(120)	326	(2)	204
Utilised in the year	–	(620)	(1)	(621)
<b>Total provisions at 31 March 2001</b>	<b>32</b>	<b>335</b>	<b>18</b>	<b>385</b>

## 25. Provisions for liabilities and charges (continued)

### (a) Deferred taxation

The elements of deferred taxation provided in the accounts at 31 March were as follows:

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Tax effect of timing differences due to:				
Excess capital allowances	439	613	214	434
Pension provisions	(102)	(189)	(102)	(189)
Other	(67)	(70)	(80)	(93)
<b>Total provision for deferred taxation</b>	<b>270</b>	<b>354</b>	<b>32</b>	<b>152</b>

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

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Tax effect of timing differences due to:				
Excess capital allowances	2,454	2,568	2,229	2,389
Pension provisions	(102)	(189)	(102)	(189)
Other	(67)	(70)	(80)	(93)
<b>Total potential liability for deferred taxation</b>	<b>2,285</b>	<b>2,309</b>	<b>2,047</b>	<b>2,107</b>

(b) Other provisions comprise amounts provided for legal or constructive obligations arising from insurance claims and litigation.

## 26. Called up share capital

The authorised share capital of the company throughout the year ended 31 March 2001 was £2,625,000,001 divided into 10,500,000,004 ordinary shares of 25p each.

The allotted, called up and fully paid share capital of the company was £1,646 million at 31 March 2001 (2000 – £1,627 million), representing 6,585,228,408 ordinary shares (2000 – 6,507,104,882 ordinary shares).

Of the authorised but unissued share capital at 31 March 2001, 192 million ordinary shares were reserved to meet options granted under the employee share option schemes described in note 33.

Ordinary shares allotted during the year were as follows:

	Number	Nominal value £m	Consideration <sup>(a)</sup> £m
Savings related schemes <sup>(b)</sup>	69,999,933	17	145
BT Employee Share Ownership Scheme	7,117,008	2	59
Other share option schemes	881,470	–	3
Stock purchase plan	125,115	–	1
<b>Totals for the year ended 31 March 2001</b>	<b>78,123,526</b>	<b>19</b>	<b>208</b>

(a) Consideration excludes contributions from group undertakings as described in note 27(c).

(b) Includes shares held in trust in anticipation of a vesting under BT's share schemes (note 33).

## Notes to the financial statements

### 27. Reconciliation of movement in shareholders' funds

	Share capital £m	Share premium account(a) £m	Capital redemption reserve(a) £m	Other reserves(a) £m	Profit and loss account £m	Total £m
<b>Group</b>						
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 7)	–	–	–	–	2,214	2,214
Employee share option schemes – 50 million shares issued (c) (note 33)	12	314	–	–	–	326
Movement relating to BT's employee share ownership trust (c)	–	–	–	–	(165)	(165)
Currency movements (including £22 million net losses in respect of foreign currency borrowings) (d)	–	–	–	–	45	45
Profit for the financial year	–	–	–	–	2,983	2,983
Dividends (20.4p per ordinary share)	–	–	–	–	(1,322)	(1,322)
Scrip dividend – 8 million shares issued	2	–	(2)	–	74	74
Balances at 31 March 1999	1,617	1,206	747	27	11,343	14,940
Goodwill, previously written off to reserves, taken back to the profit and loss account (b)	–	–	–	–	6	6
Employee share option schemes – 38 million shares issued (c) (note 33)	10	374	–	–	–	384
Movement relating to BT's employee share ownership trust (c)	–	–	–	–	(257)	(257)
Currency movements (including £10 million net losses in respect of foreign currency borrowings) (d)	–	–	–	–	(66)	(66)
Profit for the financial year	–	–	–	–	2,055	2,055
Dividends (21.9p per ordinary share)	–	–	–	–	(1,426)	(1,426)
Unrealised gain on transfer of assets and group undertakings to a joint venture	–	–	–	159	–	159
Balances at 31 March 2000	1,627	1,580	747	186	11,655	15,795
Employee share option schemes – 78 million shares issued (c) (note 33)	19	615	–	–	–	634
Movement relating to BT's employee share ownership trust (c)	–	–	–	–	(359)	(359)
Currency movements (including £65 million net gain in respect of foreign currency borrowings) (d)	–	–	–	–	429	429
Loss for the financial year	–	–	–	–	(1,810)	(1,810)
Dividend (8.7p per ordinary share)	–	–	–	–	(571)	(571)
Adjustment to unrealised gain on transfer of assets and group undertakings to a joint venture	–	–	–	(49)	–	(49)
<b>Balances at 31 March 2001</b>	<b>1,646</b>	<b>2,195</b>	<b>747</b>	<b>137</b>	<b>9,344</b>	<b>14,069</b>

## 27. Reconciliation of movement in shareholders' funds (continued)

	Share capital £m	Share premium account(a) £m	Capital redemption reserve(a) £m	Profit and loss account £m	Total £m
<b>Company</b>					
Balances at 31 March 1998	1,603	892	749	9,801	13,045
Employee share option schemes – 50 million shares issued (c) (note 33)	12	314	–	–	326
Movement relating to BT's employee share ownership trust (c)	–	–	–	(165)	(165)
Profit for the financial year (e)	–	–	–	3,785	3,785
Dividends (20.4p per ordinary share)	–	–	–	(1,322)	(1,322)
Scrip dividend – 8 million shares issued	2	–	(2)	74	74
Currency movements	–	–	–	1	1
Balances at 31 March 1999	1,617	1,206	747	12,174	15,744
Employee share option schemes – 38 million shares issued (c) (note 33)	10	374	–	–	384
Movement relating to BT's employee share ownership trust (c)	–	–	–	(252)	(252)
Profit for the financial year (e)	–	–	–	2,064	2,064
Dividends (21.9p per ordinary share)	–	–	–	(1,426)	(1,426)
Currency movements	–	–	–	(8)	(8)
Balances at 31 March 2000	1,627	1,580	747	12,552	16,506
Employee share option schemes – 78 million shares issued (c) (note 33)	19	615	–	–	634
Movement relating to BT's employee share ownership trust (c)	–	–	–	(263)	(263)
Loss for the financial year (e)	–	–	–	(2,056)	(2,056)
Dividend (8.7p per ordinary share)	–	–	–	(571)	(571)
Currency movements	–	–	–	71	71
<b>Balances at 31 March 2001</b>	<b>1,646</b>	<b>2,195</b>	<b>747</b>	<b>9,733</b>	<b>14,321</b>

(a) The share premium account, representing the premium on allotment of shares, the capital redemption reserve and £110 million of the other reserves are not available for distribution.

(b) Aggregate goodwill at 31 March 2001 in respect of acquisitions completed prior to 1 April 1998 of £1,383 million (2000 – £1,383 million, 1999 – £1,389 million) has been written off against retained earnings in accordance with the group's accounting policy. 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) During the year ended 31 March 2001 the company issued shares at a market value of £400 million (2000 – £375 million) in respect of the exercise of options awarded under its principal savings-relating share option scheme. Employees paid £145 million (2000 – £118 million) to the group for the issue of these shares and the balance of £255 million (2000 – £257 million) comprised contributions to the qualifying employee share ownership trust from group undertakings. In addition the company issued shares at a market value of £171 million to the qualifying employee share ownership trust in anticipation of the exercise of share options in August 2001 paid for by contributions to the trust from group undertakings, these shares were written down by £96 million to the option exercise price as part of the movement relating to the employee share ownership trust.

(d) The cumulative foreign currency translation adjustment, which increased retained earnings at 31 March 2001, was £278 million (2000 – £151 million decrease, 1999 – £85 million decrease).

(e) The loss 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 £2,056 million (2000 – £2,064 million profit, 1999 – £3,785 million profit). As permitted by Section 230 of the Companies Act 1985, no profit and loss account of the company is presented.

## 28. Related party transactions with associates and joint ventures

In the year ended 31 March 2001, the group's turnover with Concert amounted to £804 million (2000 – £181 million) and it purchased £612 million (2000 – £170 million) in services and products from Concert. In addition, the group provided certain support services to Concert, including the secondment of staff, which totalled £168 million (2000 – £79 million) and is shown as other operating income. Interest for the year of £41 million (2000 – £12 million) was receivable on long-term debt due from Concert at a rate of 6.5%. The amount of debt outstanding at 31 March 2001 was £651 million (2000 – £665 million). The maximum debt outstanding during the year was £674 million (2000 – £665 million). As at the latest practicable date, 30 April 2001, the balance of the loan was £636 million. During the year ended 31 March 2000, Concert Communications' net outflow from operations was £18 million and its purchase of tangible fixed assets was £106 million. Comparative figures for 2000 are for the period from the formation of the joint venture on 5 January 2000 to 31 March 2000.

## Notes to the financial statements

### 28. Related party transactions with associates and joint ventures (continued)

In the year ended 31 March 2001, the group's turnover with its other associates and joint ventures amounted to £21 million (2000 – £64 million, 1999 – £129 million) and the group purchased £63 million (2000 – £nil million, 1999 – £1 million) in services and products from these undertakings. Interest for the year of £81 million (2000 – £8 million) was receivable on debt due from these undertakings. Interest was charged on debt at a rate of 6%. The amount of debt outstanding with these joint ventures, at 31 March 2001, was £73 million (2000 – £408 million). The maximum debt outstanding during the year was £3,332 million (2000 – £442 million). As at the latest practicable date, 30 April 2001, the amount of debt outstanding was £46 million.

### 29. Financial commitments, contingent liabilities and subsequent events

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Contracts placed for capital expenditure not provided in the accounts	1,231	1,000	948	940
Operating lease payments payable within one year of the balance sheet date were in respect of leases expiring:				
Within one year	7	9	3	1
Between one and five years	32	37	23	26
After five years	110	140	82	85
<b>Total payable within one year</b>	<b>149</b>	<b>186</b>	<b>108</b>	<b>112</b>

Future minimum operating lease payments for the group at 31 March 2001 were as follows:

	2001 £m
Payable in the year ending 31 March:	
2002	149
2003	139
2004	131
2005	121
2006	113
Thereafter	816
<b>Total future minimum operating lease payments</b>	<b>1,469</b>

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

At 31 March 2001, 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 £974 million (2000 – £926 million). The company has provided guarantees amounting to £1,160 million at 31 March 2001, in respect of bank loans and guarantees provided to associates and joint ventures, including £782 million relating to J-Phone Communications.

Satellite consortia, in which the company has participating interests, are organisations without limited liability. At 31 March 2001, the company's share of the aggregate borrowings of these consortia amounted to £100 million (2000 – £130 million).

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.

### Subsequent events

In April 2001, the group acquired the 49.5% of Esat Digifone that was not already owned, from Telenor, for £856 million under an agreement made in early 2000.

### 29. Financial commitments, contingent liabilities and subsequent events (continued)

On 2 May 2001, BT announced that it had agreed to sell its interests in Japan Telecom and J-Phones for £3.7 billion, and its interest in Airtel in Spain for £1.1 billion, both to Vodafone. The impact of the combined transaction will be a net reduction in total group debt of £4.4 billion. Completion of the transactions is conditional upon relevant regulatory and procedural approvals in Europe and Japan.

On 4 May 2001, BT also announced that it had agreed in principle to sell its interest in Maxis Communications in Malaysia for £350 million. This transaction is also subject to regulatory and other approvals.

On 10 May 2001, BT announced that it proposed to raise approximately £5.9 billion, net of expenses, by the issue of up to 1,975,580,052 new ordinary shares at a price of 300 pence per share. The issue is being made by way of a rights issue on the basis of 3 new ordinary shares for every 10 existing ordinary shares held on 9 May 2001. The rights issue is due to close on 15 June 2001.

### 30. Pension costs

The total pensions cost of the group expensed within staff costs was £326 million (2000 – £167 million, 1999 – £176 million), of which £315 million (2000 – £159 million, 1999 – £167 million) related to the group's main pension scheme, the BT Pension Scheme (BTPS). The increase in cost in the year ended 31 March 2001 was mainly attributable to the general trend towards longer life expectancy and a smaller amortisation of the combined pension fund position and pension provision held in the group balance sheet.

The pension cost for the year ended 31 March 2001 was based on the valuation of the BTPS at 31 December 1999. The pension costs for the years ended 31 March 2000 and 1999 were based on the valuation of the BTPS at 31 December 1996. 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)	
	1999 valuation %	1996 valuation %
Return on existing assets, relative to market values (after allowing for a real increase in dividends of)	5.45	7.95
Return on future investments	7.12	8.42
Average increase in retail price index	3.00	4.00
Average future increases in wages and salaries	4.80	5.82
Average increase in pensions	3.00	3.75-4.00

At 31 December 1999, the assets of the BTPS had a market value of £29,692 million and, taking account of the special contribution by the company in March 2000, were sufficient to cover 96.8% 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 £429 million in the year ended 31 March 2001, will be taken into account in the next actuarial valuation being undertaken at 31 December 2000. The costs for the previous financial years (2000 – £140 million, 1999 – £279 million) were taken into account in the 31 December 1999 valuation.

For the purpose of determining the group's pension expenses in the year ended 31 March 2001, the same assumptions were used as set out above for the December 1999 valuation, with the exception that, over the long term, it has been assumed that the return on the existing assets of the scheme, relative to market values, would be 5.6% per annum (allowing for real equity dividend growth of 1.25% per annum).

In the year ended 31 March 2001, the group made regular contributions of £308 million (2000 – £253 million, 1999 – £239 million) and special contributions of £300 million (2000 – £230 million, 1999 – £200 million).

## Notes to the financial statements

### 30. Pension costs (continued)

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 nine properties owned by the scheme on which an annual rental of £3 million 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 2001, the UK equities included 51 million (2000 – 51 million) ordinary shares of the company with a market value of £258 million (2000 – £597 million).

Following a High Court judgement made in October 1999, the BTPS is liable to pay additional benefits to certain former employees of the group who left on voluntary redundancy terms. These were former employees, in managerial grades, who had joined the group's business prior to 1 December 1971. The value of the additional benefits at 31 March 2001 is estimated at £200 million. The actuarial valuation at 31 December 1999 took into account the cost of these additional benefits.

On 26 April 2001, an application for permission to appeal against the judgement was lodged on behalf of certain former employees in non-managerial grades in an attempt to extend the additional benefits to those grades. The company will be strongly resisting this new claim if permission to appeal is given.

### 31. Directors

#### Directors' emoluments

The emoluments of the directors for the year ended 31 March 2001 and the benefits received under the long-term incentive plans were, in summary, as follows:

	2001 £000	2000 £000	1999 £000
Salaries	2,199	1,878	1,695
Performance-related bonus	1,036	1,295	1,515
Deferred bonus in shares	531	573	1,513
Other benefits	182	148	123
	<b>3,948</b>	<b>3,894</b>	<b>4,846</b>
Payments to non-executive directors (a)	388	302	283
<b>Total emoluments</b>	<b>4,336</b>	<b>4,196</b>	<b>5,129</b>
Gain on the exercise of share options (b)	–	–	932
Value of shares vested under the Executive Share Plan and the Performance Share Plan (c) (d)	782	1,845	–

(a) Payments to non-executive directors include fees paid to their principal employer of £nil (2000 – £nil, 1999 – £9,500).  
(b) The amount for the year ended 31 March 1999 includes £41,000 attributable to a former director.  
(c) The amount for the year ended 31 March 2000 includes £834,000 attributable to a former director.  
(d) The amount for the year ended 31 March 2001 is entirely attributable to former directors.

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 from pages 66 to 71.

### 32. People employed

	2001		2000		1999	
	Year end '000	Average '000	Year end '000	Average '000	Year end '000	Average '000
Number of employees in the group:						
UK	117.9	120.3	126.0	123.8	118.9	119.8
Non-UK	19.1	13.1	10.8	8.3	5.8	5.1
<b>Total employees</b>	<b>137.0</b>	<b>133.4</b>	<b>136.8</b>	<b>132.1</b>	<b>124.7</b>	<b>124.9</b>

### 33. 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, further share option schemes for selected group employees and an employee stock purchase plan for employees in the United States. It also has several share plans for executives.

#### 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. Under a new option scheme introduced in 2000, scheme participants are awarded options which may vest after three years and which may be linked to a performance target. Options outstanding under these share option schemes at 31 March 2000 and 2001, together with their exercise prices and dates, were as follows:

Normal dates of exercise	Option price per share	Number of ordinary shares	
		2001 millions	2000 millions
<b>Savings-related schemes</b>			
2000	404p	–	4
2000	306p	–	37
2001	267p	58	62
2001	583p	3	4
2002	359p	44	48
2002	949p	3	4
2003	518p	35	38
2003	818p	5	–
2004	844p	23	29
2005	727p	32	–
<b>Total</b>		<b>203</b>	<b>226</b>
<b>Global share options</b>			
2001-2010	885p	2	–
2002-2011	885p	3	–
2003-2012	885p	3	–
<b>Total</b>		<b>211</b>	<b>–</b>
<b>Other share option schemes</b>			
1993-2011	289p to 1206p	5	6
<b>Total options outstanding</b>		<b>216</b>	<b>232</b>

In the period 1 April 2001 to 22 May 2001, no share options were granted, and options over eleven million shares lapsed.

During the year ended 31 March 2001, BT granted options over 49 million shares (2000 – 34 million, 1999 – 46 million) of which 41 million were under employee sharesave schemes and eight million were under the BT Global Share Option Plan. The weighted average fair value of share options granted during the year ended 31 March 2001 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 2% (2000 – 2%, 1999 – 3%); risk free interest rates of approximately 7% (2000 – 6%, 1999 – 7%) on options exercisable three years after the date of grant and 7% (2000 – 6%, 1999 – 7%) on options exercisable five years after the date of grant; and expected volatility of approximately 41% (2000 – 40%, 1999 – 30%).

The weighted average fair value of the share options granted in the year ended 31 March 2001 was 329p (2000 – 413p, 1999 – 313p) for options exercisable three years after the date of grant and 424p (2000 – 524p, 1999 – 309p) 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 2001 was £168 million (2000 – £170 million, 1999 – £139 million). 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.

## Notes to the financial statements

### 33. Employee share schemes (continued)

Options granted, exercised and lapsed under these share option schemes during the years ended 31 March 1999, 2000 and 2001 and options exercisable at 31 March 1999, 2000 and 2001 were as follows:

	Savings related schemes millions	Other share option schemes millions	Total millions	Exercise price range	Weighted average exercise price
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
Outstanding, 31 March 1999	237	6	243	267p–1053p	356p
Granted	33	1	34	844p–1206p	862p
Exercised	(36)	(1)	(37)	267p–949p	333p
Lapsed	(8)	–	(8)	267p–1043p	366p
Outstanding, 31 March 2000	226	6	232	267p–1206p	432p
Granted	41	8	49	534p–885p	751p
Exercised	(46)	(1)	(47)	168p–1351p	319p
Lapsed	(17)	(1)	(18)	168p–1351p	619p
<b>Outstanding, 31 March 2001</b>	<b>204</b>	<b>12</b>	<b>216</b>	<b>168p–1351p</b>	<b>564p</b>
Exercisable, 31 March 1999	–	4	4	289p–460p	369p
Exercisable, 31 March 2000	–	3	3	289p–460p	368p
Exercisable, 31 March 2001	–	3	3	289p–460p	368p

#### BT Incentive Share Plan and BT Retention Share Plan

The BT Incentive Share Plan (ISP) and the BT Retention Share Plan (RSP) were introduced for employees of the group in 2001. Under the plans, company shares are acquired by an employee share ownership trust and are conditionally awarded to participants. Under the ISP participants are normally only entitled to these shares in full at the end of a three-year period if the company has met the relevant pre-determined corporate performance measure and if the participants are still employed by the group. If the company has exceeded the pre-determined corporate performance measure the participants may be awarded up to double the shares conditionally awarded. Under the RSP the length of retention period before awards vest is flexible. Awards may vest in annual tranches. The shares are transferred at the end of a specified period, only if the individual is still employed by the group. 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.

#### BT Executive Share Plan, BT Performance Share Plan and BT Deferred Bonus Plan

The BT Executive Share Plan (ESP) 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 are only 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, under the PSP if, at the end of the applicable period, the company has met the relevant pre-determined corporate performance measure. Awards of shares were granted in each of the years from 1994 to 1999 under the ESP and from 1995 to 1997 under the first performance cycle of the PSP.

In 1994, 1995 and 1996 ESP participants could invest 50% of their annual bonus in the ESP for the purchase of shares. These invested shares were matched by the company.

Further awards of shares were granted in 1998 and 1999 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 second five-year performance cycle of the ESP ended on 31 July 2000 (first: 31 July 1999) and on the basis of the corporate measure, the company's Total Shareholder Return target relative to the other companies in the FT-SE 100, 100% (1999: 100%) of the shares vested on 1 August 2000 in 54 participants (1999: 25 participants) and 0.7 million shares (1999: 0.6 million shares) were transferred to those participants.

### 33. Employee share schemes (continued)

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 target relative to the other companies in the FT-SE 100, 90% of the shares vested on 19 August 1998 in 745 participants and 5.0 million shares were transferred to those participants.

The second and final three-year performance cycle of the PSP ended on 31 March 2001 and on the basis of the corporate measure, the company's Total Shareholder Return target relative to other companies in the FT-SE 100, 80% of the shares will vest on 1 August 2001 in 1,560 participants and 2.0 million shares will transfer to those participants.

The BT Deferred Bonus Plan (DBP) was established in 1998 and awards were granted to employees of the group in July 1998 and 1999. 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 2001, 19.1 million shares (2000 – 19.3 million) in the company were held in trust for employee share schemes, of which 9.7 million shares were held for the ISP, 0.4 million shares were held for the RSP, 5.4 million shares (2000 – 5.9 million) were held for the ESP, 2.0 million shares (2000 – 2.2 million) were held for the PSP and 1.6 million shares (2000 – 0.9 million) were held for the DBP. Dividends or dividend equivalents 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:

	Year ended 31 March 2001					
	ISP £m	RSP £m	ESP £m	PSP £m	DBP £m	Total £m
Value of range of possible future transfers: nil to	25.2	2.2	24.7	10.2	6.7	<b>69.0</b>
Provision for the costs of the plans charged to the profit and loss account in year	–	1.5	5.8	(1.7)	2.5	<b>8.1</b>
Nominal value of shares held in trust	2.4	0.1	1.4	0.5	0.4	<b>4.8</b>
Market value of shares held in trust	49.7	2.2	27.3	10.2	8.3	<b>97.7</b>

  

	Year ended 31 March 2000					
	ISP £m	RSP £m	ESP £m	PSP £m	DBP £m	Total £m
Value of range of possible future transfers: nil to	–	–	66.9	25.3	10.4	<b>102.6</b>
Provision for the costs of the plans charged to the profit and loss account in year	–	–	6.4	14.4	7.7	<b>28.5</b>
Nominal value of shares held in trust	–	–	1.5	0.6	0.2	<b>2.3</b>
Market value of shares held in trust	–	–	69.4	25.4	10.4	<b>105.2</b>

In addition, 10.3 million shares were held at 31 March 2000 in trust for future awards under employee share schemes. These shares had a nominal value of £2.6 million and a market value of £122 million at 31 March 2000.

The values of possible future transfers of shares under the plans were based on the company's share price at 31 March 2001 of 510p (2000 – 1,175p). The provisions for the costs of the ISP, RSP, 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.

#### BT Employee Stock Purchase 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 2001, the discounted price was between US\$65.98 and US\$154.88 (2000 – US\$92.20 and US\$170.21) per ADS and 0.1 million shares (2000 – 0.8 million) were issued under this plan.

## Notes to the financial statements

### 34. Auditors

The auditors' remuneration for the year ended 31 March 2001 for the group was £3,639,000 (2000 – £2,650,000, 1999 – £2,491,000), including £1,261,000 (2000 – £1,229,000, 1999 – £1,216,000) for the company.

The following fees were paid or are payable to the company's auditors, PricewaterhouseCoopers, in the UK for the years ended 31 March 2001, 31 March 2000 and 31 March 1999:

	2001 £000	2000 £000	1999 £000
Audit of the company's statutory accounts	1,261	1,229	1,216
Audits of the UK subsidiary undertakings' statutory accounts	839	834	605
Other services (a):			
Accountants' reports on restructuring/demerger projects	9,756	–	–
Regulatory, tax, accounting and other audit	2,717	2,617	3,030
Concert global venture related work	1,196	5,117	1,023
Systems advice	1,360	1,461	2,808
Corporate finance advice	730	1,810	596
Other consultancy	464	1,740	1,398
<b>Total</b>	<b>18,323</b>	<b>14,808</b>	<b>10,676</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 on or subsequent to 1 July 1998, the date of the firms' merger.

In addition, fees of £3,025,000 were paid or are payable to PricewaterhouseCoopers for the year ended 31 March 2001 (2000 – £6,382,000) in respect of audit and other services to the company's subsidiary undertakings outside the UK. Fees of £6,418,000 were paid 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. Fees of £1,283,000 and £865,000 were paid for work carried out by Price Waterhouse inside and outside the UK, respectively, between 1 April and 1 July 1998.

### 35. 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, long-term loans and, increasingly over the years ended 31 March 2000 and 2001, short-term loans, principally by issuing commercial paper and medium-term notes. The group borrows in the major long-term debt markets in major currencies and significant new long-term debt was taken on in the year ended 31 March 2001. 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, gilt locks, 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 certain defined derivative instruments and are given strict guidelines on credit, diversification and maturity profiles.

During the year ended 31 March 2001, net debt increased from £8.7 billion to £27.9 billion mainly as a result of the group making acquisitions of businesses and third-generation mobile licences. This increase in debt has been funded primarily by the issuance of long-term debt together with use of the group's medium-term note programme. As a result of this, together with the group's interest rate swap activity, the borrowing profile has changed during the year from one mainly at floating rates to one with a fixed: floating rate ratio of approximately 70:30. This change is in line with the group's intention to limit the group's exposure to interest rate increases given the substantial size of the group's debt portfolio. During the second quarter of the year

### 35. Financial instruments and risk management (continued)

ended 31 March 2001, it was not practical for the group to issue longer-term debt in the global capital markets. The group therefore pre-hedged its desired fixed rate profile by transacting £9.3 billion of interest rate swaps with maturities ranging from five to 30 years at a weighted average fixed interest payable rate of 6.2%.

During the year ended 31 March 2000, net debt increased from £953 million to £8,700 million primarily as a result of the group making acquisitions of businesses and interests in joint ventures and associates. This increase in debt was primarily funded under the group's commercial paper programmes. As a result, the group's borrowing profile changed during that year from one at fixed rates to one mainly at floating rates.

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, gilt locks and interest and currency swaps.

There has been no change in the nature of the group's risk profile between 31 March 2001 and the date of these financial statements.

The risk profile of the group is likely to change following the completion of the rights issued announced on 10 May 2001, and the proceeds due to be received on the planned disposals of the investments in Japan and elsewhere which have been announced to date (see note 29). In May 2001, Moody's downgraded BT's credit rating to Baa1, which will increase BT's annual interest charge by £32 million.

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 banks and other institutions to vary the amounts and periods for which interest rates on borrowings are fixed. Under interest rate swaps, the group agrees with other parties to exchange, at specified intervals, the differences between fixed rate and floating rate interest amounts calculated by reference to an agreed notional principal amount. Under gilt locks, forward sales of UK government long-dated treasury stock were entered into for periods of up to one year. This hedge effectively fixed in the interest on part of the group's then future borrowings, all of which have now been taken on.

At 31 March 2001, the group had outstanding interest rate swap agreements having a total notional principal amount of £9,574 million (2000 – £2,073 million, including gilt locks).

#### (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, the euro and the yen). The remaining terms of the currency swaps are up to 30 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 2001, the group had outstanding foreign currency swap agreements and forward exchange contracts having a total notional principal amount of £25,325 million (2000 – £11,948 million).

The fair values of forward foreign currency contracts at 31 March 2001 were £4,388 million (2000 – £7,088 million) for purchases of currency and £601 million (2000 – £1,852 million) 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 2001, the group had deferred unrealised gains of £13 million (2000 – £18 million) and losses of £34 million (2000 – £43 million), based on dealer-quoted prices, from hedging purchase and sale commitments, and in addition had deferred realised net gains of £25 million (2000 – £11 million). 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.

## Notes to the financial statements

### 35. Financial instruments and risk management (continued)

#### (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. 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.

The long-term debt instruments issued in December 2000 and February 2001 both contain covenants that if the group credit rating is downgraded below A3 in the case of Moody's or below A minus in the case of S&P, additional interest accrues from the next interest coupon period at the rate of 0.25 percentage points for each ratings category adjustment by each ratings agency. Based upon the total amount of debt of £12,930 million outstanding on these instruments at 31 March 2001, the group's annual interest charge would increase by £65 million if the group's credit rating was to fall by one credit rating category below a long-term debt rating of A3/A minus.

#### (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 2001 and 2000. The carrying amounts are included in the group balance sheet under the indicated headings, with the exception of derivative amounts, which are included in debtors or other creditors or as part of net debt 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 forced or liquidation sale.

	Carrying amount		Fair value	
	2001 £m	2000 £m	2001 £m	2000 £m
Non-derivatives:				
Assets				
Cash at bank and in hand	412	253	412	253
Short-term investments (a)	2,557	2,051	2,562	2,052
Fixed asset investments – loans to joint ventures (b)	737	1,073	737	1,073
Liabilities				
Short-term borrowings (c)	10,220	5,121	10,219	5,121
Long-term borrowings, excluding finance leases (d)	20,592	5,874	20,852	6,085
Derivatives relating to investments and borrowings (net) (e):				
Assets	259	44	–	–
Liabilities	–	–	350	100
Derivative financial instruments held or issued to hedge the current exposure on expected future transactions (net):				
Assets	–	–	–	–
Liabilities	–	–	21	25
(a) The fair value 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.				
(b) The fair value of loans to joint ventures approximated to carrying value due to loans bearing commercial rates of interest.				
(c) The fair value of short-term borrowings approximated to carrying value due to the short maturity of the instruments.				
(d) 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.				
(e) 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.				

The following information is provided in accordance with the requirements of FRS 13 – “Derivatives and other financial instruments: disclosures”. Except for disclosures under *currency exposures* below, the financial information excludes all of the group's short-term debtors and creditors.

### 35. Financial instruments and risk management (continued)

#### 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 was:

	2001				2000			
	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Financial liabilities on which no interest is paid £m	Total £m	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Financial liabilities on which no interest is paid £m	Total £m
Currency:								
Sterling	13,501	10,528	357	24,386	2,429	6,686	376	9,491
US dollar	806	145	293	1,244	353	83	7	443
Euro	4,759	664	72	5,495	424	389	30	843
Yen	508	-	-	508	508	-	1	509
Other	-	-	-	-	-	111	4	115
<b>Total</b>	<b>19,574</b>	<b>11,337</b>	<b>722</b>	<b>31,633</b>	<b>3,714</b>	<b>7,269</b>	<b>418</b>	<b>11,401</b>

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

	2001		2000	
	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Currency:				
Sterling	7.5	16	9.1	15
US dollar	8.5	7	8.7	8
Euro	6.3	6	5.8	8
Yen	1.2	4	1.2	4
<b>Total</b>	<b>7.1</b>	<b>13</b>	<b>7.6</b>	<b>12</b>

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

The maturity profile of financial liabilities is as given in note 23.

#### 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 was:

	2001				2000			
	Fixed rate financial assets £m	Floating rate financial assets £m	Financial assets on which no interest is paid £m	Total £m	Fixed rate financial assets £m	Floating rate financial assets £m	Financial assets on which no interest is paid £m	Total £m
Currency:								
Sterling	56	2,935	306	3,297	395	2,869	265	3,529
US dollar	-	293	-	293	-	31	-	31
Euro	19	315	-	334	-	53	-	53
Other	-	27	-	27	-	29	-	29
<b>Total</b>	<b>75</b>	<b>3,570</b>	<b>306</b>	<b>3,951</b>	<b>395</b>	<b>2,982</b>	<b>265</b>	<b>3,642</b>

## Notes to the financial statements

### 35. Financial instruments and risk management (continued)

The sterling fixed rate financial assets yield interest at a weighted average of 6.3% (2000 – 6.6%) for a weighted average period of 30 months (2000 – 18 months).

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

#### Currency exposures

The table below shows the currency exposures of the group's net monetary assets (liabilities), in terms of those transactional exposures that give rise to net 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.

At 31 March, these exposures were as follows:

	2001					2000				
	Sterling £m	US dollar £m	Euro £m	Other £m	Total £m	Sterling £m	US dollar £m	Euro £m	Other £m	Total £m
Functional currency of group operation:										
Sterling	–	3	3	2	8	–	13	117	29	159
Euro	1	(21)	–	(5)	(25)	6	(1)	–	–	5
Other	–	2	–	–	2	(10)	–	–	–	(10)
<b>Total</b>	<b>1</b>	<b>(16)</b>	<b>3</b>	<b>(3)</b>	<b>(15)</b>	<b>(4)</b>	<b>12</b>	<b>117</b>	<b>29</b>	<b>154</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.

At 31 March 2001, 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

	2001 £m	2000 £m
Net gain included in profit and loss account	62	51
Fair value of financial assets held for trading at 31 March	530	980

The net gain was derived from government bonds, commercial paper and similar debt instruments. The average fair value of financial assets held during the year ended 31 March 2001 did not differ materially from the year end position.

#### Hedges

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised and deferred gains and losses on instruments used for hedging and those recognised in the years ended 31 March 2001 and 31 March 2000 are as follows:

	2001		2000(b)	
	Gains £m	Losses £m	Gains £m	Losses £m
Gains and losses:				
recognised in the year but arising in previous years (a)	35	31	51	23
unrecognised at the balance sheet date	323	952	23	193
carried forward in the year end balance sheet, pending recognition in the profit and loss account (a)	106	36	99	15
expected to be recognised in the following year:				
unrecognised at balance sheet date	73	96	11	19
carried forward in the year end balance sheet pending, recognition in the profit and loss account (a)	27	7	24	12

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

### 35. Financial instruments and risk management (continued)

#### Average effective interest rates

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	8,674	5.3	6.5
Pay variable interest and receive fixed interest	Under 5 years	900	6.5	5.5

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.

#### Unused committed lines of credit

Unused committed lines of credit for short-term financing available at 31 March 2001 totalled approximately £16,750 million (2000 – £5,800 million), which was in support of a commercial paper programme or other borrowings. These lines of credit are available for up to one year.

### 36. Unaudited pro forma information relating to businesses acquired in the year ended 31 March 2001

The following unaudited pro forma information summarises the results of operations for the years indicated as if the Viag Interkom and Telfort acquisitions had been completed as of the beginning of the years presented. The pro forma data gives effect to actual operating results prior to the acquisition, adjusted to include the pro forma effect of interest expense, amortisation of intangibles and income taxes. These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the acquisitions occurred as of the beginning of the years presented or that may be obtained in the future.

	2001 £m	2000 £m
Turnover	21,265	19,612
Profit (loss) for the financial year	(2,598)	1,060
Earnings (loss) per share	(39.8)p	16.3p