

Chief Executive's statement

BT has achieved much operationally over the past year. We have continued to introduce innovative products and services, such as Genie, our mobile internet portal; we have continued to develop our high-speed broadband network; and we have continued to compete vigorously.



Now, we are moving swiftly to take further action that will transform BT.

Action that:

- addresses the debt built up through pursuing our strategy;
- accepts the realities of the market;
- continues the process of separation by lines of business;
- creates two substantial listed companies; and
- keeps both companies focused on growth opportunities.

In April 2000, we began a radical restructuring of BT. We grouped some of our activities by market sector, rather than by geography, to create BT Wireless, BT Ignite, BTopenworld and Yell, four businesses with potential for high growth.

In October 2000, we split management of our UK communications services between BT Retail and BT Wholesale.

And, in November 2000, we announced our intention of seeking separate listings via initial public offerings for BT Wireless and Yell.

We also stated our target of reducing our net debt by at least £10 billion by the end of 2001.



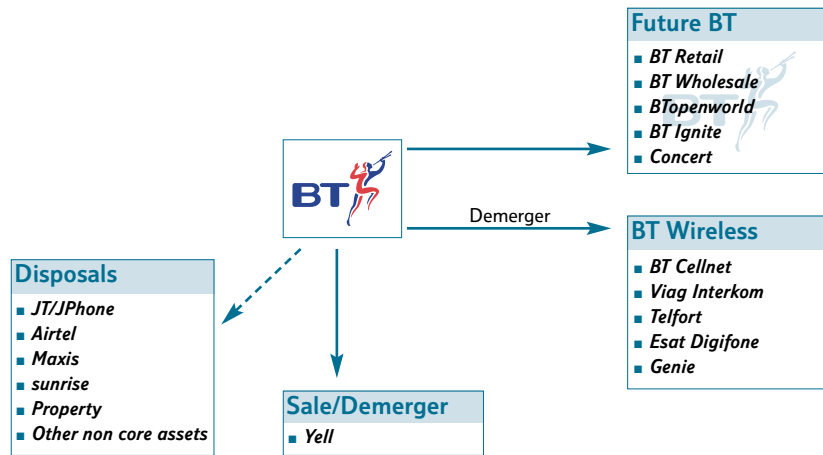
Financial headlines	2001	2000
Group turnover	£20,427m	£18,715m
Total operating profit (loss)	£(336)m	£3,198m
Profit (loss) before taxation	£(1,031)m	£2,942m
Profit before goodwill amortisation, exceptional items and taxation	£2,072m	£3,100m
Net cash flow from operating activities	£5,887m	£5,849m
Investment in telecommunications licences, subsidiaries and ventures	£18,709m	£7,165m

Key achievements

- ADSL roll out extends to 839 exchanges at 31 March 2001
- New BT Together packages launched, 8 million customers now benefiting
- BT Cellnet's customer base up 3.8 million in the year to 11.2 million at 31 March 2001
- BT Ignite's integrated broadband enabled IP network covers more than 52,000 km in 12 countries
- Genie achieves around 4 million registered users world-wide
- Full control taken of Viag Interkom. Its mobile customer base rises to 3.7 million at 31 March 2001 – up 8 times in 12 months

Transformation of BT

Two new substantial FTSE 100 companies



Since then, stock market volatility throughout the world, particularly in the telecommunications sector, has led us to reconsider whether selling off equity in parts of the business via the IPO route represents the best way ahead for the company.

As a result, we announced in May our intention to demerge BT Wireless and so create two substantial companies, **BT Wireless** and **Future BT**.

BT Wireless

We plan for BT Wireless to include all of our fully-owned wireless assets in the UK and Europe, and Genie, one of Europe's leading mobile internet portals. It should be a high-

growth business, strongly positioned to develop third-generation services by taking advantage of its leadership in mobile data. It will be an independent wireless operator in a market which is consolidating.

Future BT

Future BT will combine four separately managed businesses, BT Retail, BT Wholesale, BTopenworld and BT Ignite to form a focused European network and retail group concentrating on voice and data services. Its aim is to create value based on service excellence, its brand leadership, its large scale networks and its existing customer base. It will also develop and market new, higher value

broadband and internet products and services. Your investment in BT will, therefore, provide ownership of two strong and separately quoted businesses, and the flexibility that gives shareholders. Although both companies are expected to be major components of the FTSE 100, they will have contrasting financial profiles: BT Wireless, high growth; and Future BT, well-established and cash generative.

The separation into distinct businesses gives our management teams greater focus and accountability. It enables them to focus hard on productivity and their own customer segments, and it gives each business more flexibility for forging partnerships and strategic alliances. We are already gaining distinct advantages from having our businesses up and running as separate units. The action we are planning now will enable us to build on this.

The greater transparency of the businesses should also help investors improve their understanding of each one. They can assess the dynamics, opportunities and contrasting financial profiles of each business – and this better enables them to attribute value to each.

This restructuring represents a major task for BT, but I'm confident that we can and will deliver. We're tackling the issues that need to be tackled and we're moving forward.

Sir Peter Bonfield CBE

Chief Executive
22 May 2001



Message from Sir Iain Vallance

Nearly all BT shareholders are BT customers. And nearly all BT employees are BT shareholders. That exceptional association between owners, employees and customers has been a core strength of the organisation since it moved into the private sector some 17 years ago.

It has been a privilege for me to have been part of that association from the outset – for the most part as Chairman of the BT group.

The group has been a front-runner in the telecommunications world in countless ways. That can be put down to the talent and professionalism of its management and employees, and to the loyalty of its shareholders.

BT has won through some turbulent times in the past and I am confident it will do so again, with the support of its people and shareholders, under the guidance of Sir Christopher and the Board.

Sir Iain Vallance

President Emeritus
22 May 2001