

Report of the directors

The directors submit their report and the audited financial statements of the company, BT Group plc, and the group, which includes its subsidiary undertakings, for the 2002 financial year.

Introduction

BT Group plc is the listed holding company for the BT group of companies and was formed when the mmO2 business (comprising what had been British Telecommunications plc's mobile activities in the UK, the Netherlands, Germany and the Republic of Ireland) was demerged on 19 November 2001. This report has been prepared as if BT Group plc, which includes the continuing business of British Telecommunications plc, had been in existence for the whole of the 2002 financial year.

The **Business review** on pages 8 to 23, **Our commitment to society** on pages 24 and 25, the **Financial review** on pages 28 to 47, the discussion on **Corporate governance** on pages 52 to 54, **Risk factors** on pages 55 and 56 and the **Report on directors' remuneration** on pages 57 to 69 form part of this report. The audited financial statements are presented on pages 72 to 135.

Principal activity

The group's principal activity is the supply of communications services and equipment. In the 2002 financial year, approximately 89% of group turnover arose from operations in the UK.

Directors

The names and biographical details of the directors of the company are given on pages 48 and 49. Coinciding with the restructuring of the company, the Board was reshaped during the year and underwent considerable change.

Sir Anthony Greener, Louis R. Hughes and Maarten van den Bergh served throughout the financial year, as did Philip Hampton, who subsequently retired as a director and left the company on 30 April 2002.

The following directors also served on the Board during the year until the retirement dates shown alongside their respective names:

Director	Retirement date
Helen Alexander	14 January 2002
Dr Iain Anderson	30 September 2001
Sir Peter Bonfield	31 January 2002
Neville Isdell	14 January 2002
Lord Marshall	18 July 2001
June de Moller	14 January 2002
Sir Iain Vallance	1 May 2001
Sir John Weston	14 January 2002

In addition, the following directors served on the Board during the year from the appointment dates shown alongside their respective names:

Director	Appointment date
Sir Christopher Bland	1 May 2001
Pierre Danon	19 November 2001
Andy Green	19 November 2001
The Rt Hon Baroness Jay of Paddington PC	14 January 2002
John Nelson	14 January 2002
Dr Paul Reynolds	19 November 2001
Carl G. Symon	14 January 2002
Ben Verwaayen	14 January 2002

In preparation for the restructuring, David Borthwick and Alan Scott were directors of Newgate Telecommunications Limited from 30 March 2001 until 10 September 2001. Newgate Telecommunications Limited changed its name to BT Group plc on 11 September 2001. Certain of BT's directors retired from the Board of British Telecommunications plc and were appointed to the BT Group plc Board before or at the time of the demerger.

Following his retirement from the Board, the former Chairman, Sir Iain Vallance, remains with BT as President Emeritus until 31 July 2002.

Following the year end, Ian Livingston joined the Board as a director on 8 April 2002.

In accordance with the articles of association, Pierre Danon, Andy Green, Baroness Jay, Ian Livingston, John Nelson, Dr Paul Reynolds, Carl G. Symon and Ben Verwaayen, having been appointed as directors by the Board, retire at the forthcoming annual general meeting (AGM) and will be proposed for election. Details of these directors' service contracts or contracts of appointment are included in the **Report on directors' remuneration** on pages 60 and 69 and the discussion on **Corporate governance** on page 52.

Substantial shareholdings

At 21 May 2002, the company had received a notification from Legal & General Investment Management Limited under Part VI of the Companies Act 1985 in respect of a holding of 262 million shares representing 3.01% of the company's issued ordinary share capital.

Interest of management in certain transactions

During and at the end of the 2002 financial year, none of the company's directors was materially interested in any material transaction in relation to the group's business and none is materially interested in any presently proposed material transactions.

Policy on the payment of suppliers

BT's policy is to use its purchasing power fairly and to pay promptly and as agreed.

BT has a variety of payment terms with its suppliers. The terms for payments for purchases under major contracts are settled when agreeing the other terms

negotiated with the individual suppliers. It is BT's policy to make payments for other purchases within 30 working days of the invoice date, provided that the relevant invoice is presented to the company in a timely fashion and is complete. BT's payment terms are printed on the company's standard purchase order forms or, where appropriate, specified in individual contracts agreed with the supplier. The ratio, expressed in days, between the amounts invoiced to the company by its suppliers in the 2002 financial year and the amounts owed to its trade creditors at the end of the year was 18 days.

Auditors

A resolution to reappoint PricewaterhouseCoopers as auditors of the company and authorise the directors to settle their remuneration will be proposed at the AGM.

Authority to purchase shares

The authority given at an extraordinary general meeting of the company held on 10 September 2001 for the company to purchase in the market 870 million of its shares, representing 10% of the issued share capital, expires on 9 September 2002. This authority was not used during the year and shareholders will be asked to give a similar authority at the AGM.

Annual general meeting resolutions

The resolutions to be proposed at the AGM to be held on 17 July 2002, together with explanatory notes, appear in the separate Notice of Annual General Meeting sent to all shareholders.

By order of the Board

L W Stone

Secretary

21 May 2002

Registered office: 81 Newgate Street, London EC1A 7AJ

Registered in England and Wales No. 4190816