

Risk factors

The business of BT is affected by a number of factors, not all of which are wholly within BT's control. Although many of the factors influencing BT's performance are macro economic and likely to affect the performance of businesses generally, some aspects of BT's business make it particularly sensitive to certain areas of business risk. This section highlights some of those specific areas. However, it does not purport to be an extensive analysis of the factors affecting the business and some risks may be unknown to us and other risks, currently believed to be immaterial, could turn out to be material. All of these could materially adversely affect our business, turnover, profits, assets, liquidity and capital resources. They should also be considered in connection with the forward looking statements in this document and the cautionary statement regarding forward-looking statements on page 140 of this document.

If BT's activities are subject to significant price controls, its market share, competitive position and future profitability may be affected

Most of BT's fixed network activities in the UK are subject to significant regulatory controls. The controls regulate, among other things, the prices BT may charge for its services and the extent to which it has to provide services to its competitors. In recent years, the effect of these controls has been to cause BT to reduce its prices. BT cannot assure its shareholders that the regulatory authorities will not increase the severity of the price controls, nor extend the services to which controls apply (including any new services that BT may offer in the future), nor extend the services which it has to provide its competitors. These controls may adversely affect BT's market share, the severity of competition and its future profitability.

BT faces strong competition in UK fixed network services

BT continues to have a significant market share in some aspects of UK fixed network services. In particular, approximately 83% of exchange lines in the UK were in the BT network as at 31 March 2002. Regulators are promoting competition in this area by allowing BT's competitors to site equipment in or adjacent to its exchanges (local loop unbundling) and to make it easier for BT's customers to route some or all of their calls over competitors' networks (carrier pre-selection). Reduction in BT's market share in the fixed network may lead to a fall in BT's turnover and an adverse effect on profitability. Unlike its competitors, BT continues to be obliged by the current regulatory regime to serve customers in the United Kingdom, whether or not such provision of service is economic, and the two competitive measures described above may have the effect of accelerating the diversion of its more profitable existing customers without it being able to reduce its costs commensurately. These changes in the regulatory environment and ensuing increased competition on its fixed network may cause adverse effects on its business, results of operations, financial condition and prospects.

BT's ongoing businesses may be adversely affected by the unwinding of Concert, BT's joint venture with AT&T

The unwind of Concert, BT's joint venture with AT&T, was completed on 1 April 2002. Concert's businesses, customer accounts and networks were returned to BT and AT&T with each taking ownership of substantially those parts of Concert originally contributed by them. The working capital and other liabilities of Concert will be divided equally between BT and AT&T, with the exception that BT receive an additional US\$400 million (£275 million) reflecting the allocation of the businesses. There is a working capital completion process that means the working capital allocation may not be agreed by both parties until Autumn 2002. The reintegration of those businesses, customer accounts, networks and people transferred back to BT is a complex undertaking. BT cannot assure its shareholders that it will be successful in completing the integration as currently planned. In addition, BT can give no assurance that the working capital allocation will be agreed at the level currently anticipated.

BT's business is dependent on the ability to exploit technological advances quickly and successfully

BT operates in an industry with a recent history of fast technological changes. It expects that new products and technologies will emerge and that existing products and technologies will develop further. BT needs to transform its services and products to exploit those next generation technologies. However, BT cannot predict the actual effect of these technological changes on its business or on its ability to provide competitive services. For example, presently there is evidence of substitution by customers using mobile phones for day-to-day voice calls in place of making such calls over the fixed network. Additionally, some calls are now being routed over the internet in place of the traditional switched network. If these trends accelerate, BT's fixed network assets may be used uneconomically and its investment in these assets may not be recovered through profits on fixed-network calls and line rentals. Impairment write-downs may be incurred and margins may decline if fixed costs cannot be reduced in line with falling turnover.

BT has targeted significant growth in new business areas, such as broadband. In view of the likely level of competition and uncertainties regarding the level of economic activity, there can be no certainty that BT will meet these growth targets, with a consequential impact on future turnover and profitability.

BT's businesses may be adversely affected if their networks or systems experience any significant failures or interruptions

BT's businesses are dependent on their ability to transfer substantial volumes of data speedily and without interruption. Any significant failure or interruption of such data transfer due to factors outside their control could have a material adverse effect on the businesses and their results

from operations. BT has a business continuity strategy designed to deal with such events, including major terrorist action, industrial action, hurricane or flooding, that may impact the ability to maintain an effective service to customers. Any such strategy can provide only reasonable and not absolute assurance against material loss and there can be no assurance that material adverse events will not occur.

BT's ability to pay dividends in the future will depend on the success of the restructured group

BT did not pay a final dividend for the year ended 31 March 2001 or an interim dividend for the year ended 31 March 2002 after ceasing the payment of a final dividend for the year ended 31 March 2001 in advance of the group restructuring programme. The Board has recommended a final dividend of 2.0 pence per share in respect of the year ended 31 March 2002 and expects to resume regular dividend payments thereafter. However, the level of dividend which BT expects to pay in the future will be dependent on the future performance of the business.

Declining investment returns may result in the funding cost of the defined benefit pension scheme becoming an unsustainable burden on the financial resources of BT

The defined benefit pension scheme, the BT Pension Scheme (BTPS), was closed to new members on 31 March 2001 and has been replaced by a defined contribution scheme (BTRP). The next full triennial actuarial review of the BTPS is due to be completed at 31 December 2002. The results of future scheme valuations will be impacted by the future equity market performance, interest rates and the general trend towards longer life expectancy, all of which are outside the control of BT. In the event that investment returns decline, the cash funding cost to BT will increase and may have a significant effect on the financial resources of BT.

If BT Ignite continues to incur losses in European operations BT may not realise an economic return on its investment

BT Ignite's European connectivity business, which includes operations in Germany, the Netherlands, the Republic of Ireland and Spain, made an operating loss of £276 million before exceptional items and goodwill amortisation in the year ended 31 March 2002. The strategic focus of BT Ignite is to streamline its European activities with a focus on providing value added solutions and services to multi-site corporate customers with the objective of reversing its loss making businesses. There can, however, be no assurance that BT Ignite will not continue to incur losses and, in this event, BT Ignite may close or dispose of operations.