

Business review

and summary directors' report

BT is one of Europe's leading providers of telecommunications services. Its principal activities include local, national and international telecommunications services, higher-value broadband and internet products and services, and IT solutions.

Operating performance

BT Group's operating results were satisfactory. Group turnover from our continuing activities increased by 8% in the year and our earnings before interest, tax, depreciation and amortisation (EBITDA) before exceptional items on continuing activities were in line with last year.

Dividend

BT's future dividend policy will be progressive, reflecting the growth in earnings per share and an improving balance sheet. It is likely that the dividend cover during the next three years will be in the range of 2.5 to 2.0 times reducing within the range as the group's cash position improves.

Rights issue

In June 2001, we completed the UK's largest ever rights issue: some 1.98 billion new shares were issued, raising £5.9 billion net of expenses.

Disposals

During the year, we disposed of a number of businesses and interests.

In June 2001, we sold Yell, our international directories and e-commerce business, for approximately £2 billion.

Other disposals included our interests in Japan Telecom and J-Phone for £3.7 billion and Airtel for £1.1 billion. We also completed the sale and leaseback of the majority of our UK property portfolio for £2.4 billion.

Demerger of mmO2

On 19 November 2001, following a Court Meeting and EGM on 23 October 2001, we completed the demerger of mmO2, which comprised the majority of BT's mobile assets in the UK and

continental Europe.

Concert

On 1 April 2002, we unwound Concert, our international joint venture with AT&T. The businesses, customer accounts and networks are being returned to the two parent companies. We have acquired substantially all Concert's managed services network infrastructure in Europe, Africa, the Middle East and the Americas, and substantially all of the customer and supplier contracts that we originally contributed to Concert.



BT Retail

Years ended, or as at, 31 March	2002	2001
Group turnover	£12,085m	£12,063m
Group operating profit	£1,102m	£888m
No. of employees ('000)	50.8	53.6

Note – before goodwill amortisation and exceptional items

BT Retail is the UK's largest communications service provider, by market share, to the residential and business markets, and the prime channel to market for the other businesses in the BT group.

It supplies customers with a wide range of products and services, including voice, data, internet and multimedia services, as well as offering managed and packaged communications solutions.

In the residential, fixed-voice call market, BT Retail's market share remained stable over the year at 73%. Exchange line turnover accounted for approximately 30% of BT Retail's revenues in the year. There was a marginal increase in the number of residential lines

(brought about by a combination of a rise in demand for second lines and customers returning to BT from other operators) and the number of business lines grew by 1.3%, in large part because of the growth in demand for high-speed ISDN services.

The BT Together and "SurfTime" packages, which were enhanced during the year, now have more than ten million customers and account for 71% of residential customer call minutes.

Existing new-wave business, including high speed ISDN lines, digital private circuits and conferencing, achieved growth of 10%, and BT Retail has announced a target of a 4% per annum increase in incremental revenue from existing new-wave business by the 2005 financial year.

BT wholesale

Years ended, or as at, 31 March	2002	2001
Group turnover	£12,256m	£11,728m
Group operating profit	£2,242m	£2,538m
No. of employees ('000)	29.8	30.0

Note – before goodwill amortisation and exceptional items

BT Wholesale provides network services and solutions within the UK to communication companies, network operators and service providers, and to other BT lines of business.

During the year, BT Wholesale continued to drive its strategic objectives to:

- evolve the UK network from a predominantly fixed-voice technology, towards data, IP and mobile technologies

- create a products and services portfolio that will sustain traditional product revenues while helping wholesale customers move up the value chain
- become the number one provider in the high-growth UK broadband and data market.

In the year, we invested almost £2 billion in our network, in a highly focused way, using new technology to grow scale and capabilities for the future.

Over £100 million (a rise of 240% on the previous year) of new business revenues were generated from sales of broadband and data products, network facilities management and content and applications solutions.

BT ignite

Years ended, or as at, 31 March	2002	2001
Group turnover	£4,476m	£3,468m
Group operating loss	£(353)m	£(309)m
No. of employees ('000)	16.4	18.8

Note – before goodwill amortisation and exceptional items

BT Ignite is BT's business services and solutions division, serving customers worldwide. Its strategy is to deliver managed networks and communications solutions to multi-site corporate customers with activities in one or more European countries, including customers who operate globally with needs in Europe.

BT Ignite's European network covers 56,000 kilometres, linking to 300 large towns and cities, with 20 hosting centres spanning the continent and Europe's largest IP virtual private network capability.

It also has a worldwide network of partnerships, joint ventures and distributors to meet customers' needs in the USA and Asia.

BT openworld

Years ended, or as at, 31 March	2002	2001
Group turnover	£222m	£140m
Group operating loss	£(118)m	£(233)m
No. of employees ('000)	0.4	0.5

Note – before goodwill amortisation and exceptional items

BTopenworld provides consumers and SMEs in the UK with a range of narrowband and broadband internet access and related services.

As at 31 March 2002, BTopenworld had approximately 1.75 million UK ISP customers, including over one million customers on narrowband unmetered packages, making it one of the largest unmetered internet access providers in the UK. Under the *Powered* brand, it also offers wholesale internet virtual ISP services.

BTopenworld's achievements during the year included reducing the losses of its broadband service, launching a Plug & Go self-install broadband product, launching the UK's first satellite-based internet access service, and purchasing the leading UK online games and music sites, Games Domain and dotmusic.

BTextact Technologies

In the 2002 financial year, BT invested £362 million in research and development, primarily through BTextact Technologies, our internationally-renowned centre of communications technology. This compared with £364 million and £345 million in the 2001 and 2000 financial years, respectively.

Customer satisfaction

Customer satisfaction is at the heart of BT's strategy.

During the financial year, there were sustained improvements in several areas. For example, consumer provision and repair were both 3.9% better than the previous year and there was a 2.2% improvement in business provision, but a slight decline of 0.6% in business repair.

Our people

As at 31 March 2002, BT employed around 108,600 people, primarily in the UK, making us one of the UK's largest employers. During the 2002 financial year, approximately 4,200 people left the company voluntarily, with leaver payments or on voluntary redundancy.

BT is an equal opportunities employer and the majority of our employees are members of one of the company's two main pension schemes, both of which are controlled by independent trustees.

In 2002, we spent around £200 million on the training and development of our people and won the Parents at Work/DTI Employer of the Year award for our approach to helping BT people achieve the right work/life balance.

Our commitment to society

We continue to commit a minimum of 0.5% of our UK pre-tax profits to direct activities in support of society. Contributions totalled £15 million (including £1.2 million to charities) in the 2002 financial year.

During the year, we continued to improve our social and environmental performance and this was recognised by our ranking as the world's number one telecommunications company in the Dow Jones Sustainability Index.

And our social and environmental report, at www.btplc.com/betterworld, was the joint winner of the first ACCA UK Sustainability Reporting Award.

Statement of business practice

To reinforce our commitment to achieve best practice in our standard of business integrity, a copy of BT's Statement of Business Practice has been sent to every employee. We also require our agents and contractors to apply these principles when representing BT.