



Sir Christopher Bland, Chairman, reports on the successful delivery of the action plan outlined a year ago and the company's return to the dividend list...

The last year has been a significant one for BT Group.

Our operating results were satisfactory and we are pleased to propose a final dividend of 2.0 pence per share.

In May 2001, your Board developed an action plan to reduce debt, manage costs and enhance BT's ability to serve its customers even more effectively.

In the year since then, we have delivered on that plan.

In a turbulent market characterised by rising debt levels – a consequence in large part of the high cost of acquiring 3G mobile licences—and cooling sentiment towards the telecommunications sector, we have taken the hard decisions early and are now in a position of relative strength.

Debt was reduced from £27.9 billion as at 31 March 2001, to £13.7 billion as at 31 March 2002.

■ A significant part of this reduction was achieved through the successful completion of the largest rights issue in UK corporate history. Some 1.98 billion new shares were issued, raising £5.9 billion.

- We demerged mmO2, which comprises what used to be BT's wholly-owned mobile assets in the UK and continental Europe.
- We unwound Concert, our international joint venture with AT&T, which had come under considerable pressure from the downturn in the global communications sector. Our destiny in this market is once again under our direct control.
- We disposed of Yell, our international directories and e-commerce business. We sold our interests in Japan and Spain at a significant profit.
- We achieved the sale and leaseback of a large part of our UK property portfolio.
- And we made significant changes to your Board of directors, through a series of executive and non-executive appointments, on which shareholders will have the opportunity to vote at the AGM.

I would like to pay tribute to Sir Peter Bonfield, who left the company at the end of January this year. In Peter's six years as Chief Executive, his energy and drive were of enormous value and he played a key role in the restructuring of the company. We wish him well for the future.

The appointment of Ben Verwaayen, former vice chairman of the management board of Lucent Technologies, as your new Chief Executive marks the next stage in your company's evolution. Ben has significant telecommunications experience and a proven track record in driving culture change.

In November 2001, we strengthened the Board with the appointment of Pierre Danon, Chief Executive of BT Retail, Paul

Reynolds, Chief Executive of BT Wholesale and Andy Green, Chief Executive of BT Ignite.

The appointment of Ian Livingston, former group finance director of Dixons Group, as Group Finance Director in April 2002 completes the top team.

I would like to thank the non-executive directors, Lord Marshall, Iain Anderson, Helen Alexander, Neville Isdell, June de Moller and Sir John Weston, who retired during the year and welcome Baroness Jay, John Nelson and Carl Symon to the Board.

I would also like to thank Philip Hampton and Colin Green, both of whom left the company recently, for the notable contributions they made as Group Finance Director and Secretary respectively.

As we progress, and while we continue to concentrate on managing the debt and further reducing costs, we are also embarked on the pursuit of profitable growth and customer service excellence.

After a year of relative introspection, we need to show the self-confidence that our assets and strategy justify. We will be entirely focused on finding profitable ways to meet what our customers need, particularly in the "new wave" services arena, in order to enhance shareholder value.

The last couple of years have been tough for our shareholders. I would like to thank you all for your continued support.

They've also been tough for BT employees, who have consistently risen to the challenge.

Looking ahead, I see every reason for optimism.

Key events

June 2001

UK's largest-ever rights issue closes
Sale of Yell for approximately £2 billion
Sale of interest in Airtel in Spain for £1.1 billion

June and July 2001

Sale of interests in Japan Telecom and J-Phone for £3.7 billion

October 2001

Court Meeting and Extraordinary General Meeting win approval for creation of a holding company and demerger of mmO2

November 2001

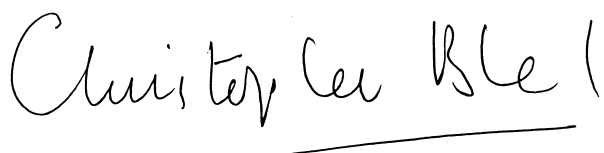
Demerger of mmO2

February 2002

Ben Verwaayen takes over as Chief Executive

April 2002

Formal unwinding of Concert joint venture with AT&T



Sir Christopher Bland
Chairman
21 May 2002