

ed to check the last two
confirm that if we receive
planning a trip home soon
long will he be there?
K YOU SIR, IF YOU STAY



British
Telecommunications
plc

OFFER FOR SALE

airport by three o'clock
you for your fax of 15th
traffic's dreadful, I won't
really great to hear from you

Offer for sale
by
S.G. Warburg & Co. Ltd.
on behalf of
HM Treasury

DIRECTORS OF BT

Iain D. T. Vallance
Chairman

Paul G. Bosonnet*
Deputy Chairman

Michael Bett CBE
Deputy Chairman

Michael L. Hepher
Group Managing Director

Malcolm Argent CBE
Group Director and Secretary

Sir Eric Ash CBE*

Anthony J. Booth
Managing Director, Business Communications

Geoffrey J. Mulcahy*†

Yve M. Newbold*

Barry D. Romeril
Group Finance Director

Dr Alan W. Rudge OBE
Managing Director, Development and Procurement

Sir David Scholey CBE*

The Rt. Hon. Norman Tebbit CH MP*

*Non-executive

†Government Appointed Director

REGISTERED OFFICE OF BT

81 Newgate Street,
London EC1A 7AJ

AUDITORS OF BT

Coopers & Lybrand Deloitte
Plumtree Court,
London EC4A 4HT

**GLOBAL CO-ORDINATOR OF THE
COMBINED OFFERS**

S.G. Warburg Securities
1 Finsbury Avenue,
London EC2M 2PA

FINANCIAL ADVISERS

To HM Treasury
S.G. Warburg & Co. Ltd.
2 Finsbury Avenue,
London EC2M 2PA

To BT
NM Rothschild & Sons Limited
New Court,
St. Swithin's Lane,
London EC4P 4DU

LEGAL ADVISERS

To HM Treasury
Linklaters & Paines
Barrington House,
59-67 Gresham Street,
London EC2V 7JA

To BT
Colin R. Green
British Telecommunications public limited company
BT Centre,
81 Newgate Street,
London EC1A 7AJ
and
Slaughter and May
35 Basinghall Street,
London EC2V 5DB

MARKETING ADVISERS

Dewe Rogerson Limited
3½ London Wall Buildings,
London Wall,
London EC2M 5SY

REGISTRAR AND AGENT BANK

Lloyds Bank Plc
Registrar's Department,
Goring-by-Sea,
Worthing,
West Sussex BN12 6NA

This document is issued on behalf of HM Treasury by S.G. Warburg & Co. Ltd., a member of The Securities and Futures Authority Limited. HM Treasury accepts responsibility for the information contained in this document and confirms that, to the best of the knowledge and belief of HM Treasury, having taken reasonable care to ensure that such is the case (including having regard, inter alia, to assurances given by BT to HM Treasury for its benefit alone in relation to information relating to BT, referred to in paragraph 6(c) of Part 10 of this document), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Shares being offered have been admitted to the Official List of the London Stock Exchange.

Before deciding whether to apply for Shares, you should consider whether Shares are a suitable investment for you. Their value can go down as well as up. Past performance is not necessarily indicative of future performance. If you need advice, you should consult an appropriate professional adviser.

British Telecommunications public limited company

Offer for sale

by

S.G. Warburg & Co. Ltd.

on behalf of

The Lords Commissioners of HM Treasury

Under the Combined Offers being made in the UK and elsewhere up to 1,350 million Shares (subject to increase) are available for purchase.

The Combined Offers comprise the
UK Public Offer of Shares at the UK Public Offer Price
and the International Tender Offer of Shares
at the International Tender Offer Price.

Of the UK Public Offer Price,
110p per Share is payable now,
120p is payable by 7th July, 1992
and the balance is payable by 2nd March, 1993.

Of the International Tender Offer Price,
125p per Share is payable now and the balance is payable
in instalments of the same amounts and by the same dates
as in the UK Public Offer.



21st November, 1991

A Public application form is provided at the end of this document, together with a guide on how to complete it. The terms and conditions of application are set out in Part 13 of this document. Completed application forms must be received by 10.00 a.m. on Wednesday, 4th December, 1991.

This document is not for distribution in Canada, Japan or the United States. Residents of countries outside the UK, the Channel Islands and the Isle of Man should refer to "Overseas applicants" in Part 11 of this document.

In connection with the International Tender Offer, the Global Co-ordinator may over-allot or effect transactions which stabilise or maintain the market price of the Shares and/or any other securities of (or options, warrants or rights with respect to, or interests in, the Shares or other securities of) the Company at a level which might not otherwise prevail in the open market. Such transactions may be effected on the London Stock Exchange, the New York Stock Exchange or otherwise, except that no such transactions will be effected on the Tokyo Stock Exchange or The Toronto Stock Exchange. Such stabilising, if commenced, may be discontinued at any time.

CONTENTS

PART	PAGE
1. KEY INFORMATION	3
2. DESCRIPTION OF THE COMBINED OFFERS	4
3. DESCRIPTION OF BT'S BUSINESS	6
4. FINANCIAL REVIEW	11
5. PROSPECTS	15
6. FINANCIAL INFORMATION	16
7. RELATIONSHIP WITH HM GOVERNMENT	19
8. MARKET PRICE AND DIVIDEND INFORMATION	20
9. REGULATION, COMPETITION AND PRICES	20
10. ADDITIONAL INFORMATION	27
11. INCENTIVES, SHARE SHOPS, APPLICATIONS AND DEALINGS	37
12. TERMS AND CONDITIONS OF THE SHARE DEALING SERVICE	44
13. TERMS AND CONDITIONS OF APPLICATION	47
GUIDE TO COMPLETING THE PUBLIC APPLICATION FORM	
PUBLIC APPLICATION FORM	
INSTRUCTIONS FOR RETURN OF THE PUBLIC APPLICATION FORM	

TIMETABLE

Completed application forms to be received by	10.00 a.m. on Wednesday, 4th December, 1991
UK Public Offer Price, International Tender Offer Price, final instalment and basis of allocation expected to be announced	Monday, 9th December, 1991
Dealings in Interim Rights in London expected to commence	8.30 a.m. on Monday, 9th December, 1991
Despatch of interim certificates expected	on or before Wednesday, 18th December, 1991
Payment of second instalment to be made for value by	3.00 p.m. on 7th July, 1992
Payment of final instalment to be made for value by	3.00 p.m. on 2nd March, 1993

Applicants should note that interim certificates will not be despatched until after dealings in Interim Rights have commenced. Applicants who deal before receipt of interim certificates will do so at the risk of selling Interim Rights for which they have not received an allocation.

DEFINITIONS

"BT" or the "Group"	the Company and its subsidiaries, or any of them, as the context may require	"International Tender Offer Price"	the amount per Share at which Shares are sold under the International Tender Offer, determined in accordance with the International Tender Offer Agreement, as modified or amended, as described in Part 2 of this document
"BT Shares" or "Shares"	fully paid ordinary shares of 25p each in the Company and include, in Parts 2, 10 and 11 of this document, where the context requires, Interim Rights	"Licence"	the public telecommunications operator licence issued to BT under the Telecommunications Act 1984 to operate its fixed-link telecommunication network
"bid"	a firm (but non-binding) indication of interest in purchasing Shares under the International Tender Offer	"London Stock Exchange"	The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited
"Combined Offers"	the UK Public Offer and the International Tender Offer	"OFTTEL"	The Office of Telecommunications
"Company"	British Telecommunications public limited company	"Prospectus"	this document
"Director General"	The Director General of Telecommunications	"RPI"	the UK retail price index
"financial year"	year to 31st March	"Secretary of State"	The Secretary of State for Trade and Industry
"Global Co-ordinator"	S.G. Warburg Securities in its capacity as global co-ordinator of the Combined Offers and bookrunner for the International Tender Offer	"UK"	the United Kingdom of Great Britain and Northern Ireland
"HM Government"	Her Majesty's Government of the United Kingdom	"UK Public Offer"	the offer for sale to the public of Shares being made by S.G. Warburg & Co. Ltd. on behalf of HM Treasury and described herein
"HM Treasury"	The Lords Commissioners of Her Majesty's Treasury	"UK Public Offer Price"	an amount per Share which is 15p less than the International Tender Offer Price
"Interim Rights"	has the meaning set out in paragraph 8 of Part 10 of this document		
"International Tender Offer"	the separate international tender offer of Shares being co-ordinated by the Global Co-ordinator		

KEY INFORMATION

The following information should be read in conjunction with the full text of this document.

BT'S BUSINESS

- BT is one of the world's leading providers of telecommunication services, demand for which grew significantly in the 1980s. BT's principal activity is the supply of local, long-distance and international telecommunication services and equipment in the UK. In the 1991 financial year, 98 per cent. of BT's total turnover arose from operations in the UK. BT believes that it has a strong base upon which to develop the Company.
- BT operates in the UK in an environment of extensive regulation, to which there have been important recent changes, and of growing competition, leading to reductions in its market share. BT is subject to controls restricting the prices it may charge for services which account for the majority of its turnover. With growing competition and regulatory pressure, BT's future is inevitably more uncertain.
- BT has been engaged in an extensive programme of modernising, improving and expanding its telecommunication network. BT will continue to seek further improvements in productivity and in the efficiency of its operations, both as a result of continued investment in the network and through firm control of costs.
- BT has an organisational structure which is designed to give BT the focus and flexibility to meet the needs of different types of customers. BT is seeking to implement further improvements in quality of service to customers in the UK. BT believes that there will be scope to develop its business in its chosen markets overseas, concentrating on providing telecommunication networks and services over those networks.

FINANCIAL INFORMATION

	Year ended 31st March, ⁽¹⁾					Six months ended 30th September, ⁽²⁾	
	1987	1988	1989	1990	1991	1990	1991
Turnover (£ million)	9,339	10,185	11,071	12,315	13,154	6,475	6,632
Profit before tax (£ million)	2,067	2,292	2,437	2,692 ⁽³⁾	3,075	1,532	1,610
Earnings per Share	20.9p	23.6p	25.9p	29.2p ⁽³⁾	34.0p	16.8p	17.4p
Net dividends per Share	8.45p	9.5p	10.5p	11.8p	13.3p	5.25p	5.7p

Notes

(1) The financial information for BT's five financial years ended 31st March, 1991 is derived from BT's audited accounts for the relevant year.

(2) The financial information for the six month periods ended 30th September, 1990 and 1991 is derived from BT's unaudited financial results for the relevant period.

(3) Before taking account of an exceptional charge for restructuring of £390 million. BT's earnings per Share for the year ended 31st March, 1990, after taking account of this exceptional charge, were 25.0p.

MARKET STATISTICS

The statistics set out below are based on the middle-market quotation for BT Shares for 20th November, 1991 of 350½p, as derived from the London Stock Exchange Daily Official List.

- Market capitalisation of BT £21,585 million
- Historic price/earnings multiple based on BT's earnings per Share for the year ended 31st March, 1991 of 34.0p 10.3 times
- Historic gross dividend yield based on BT's net dividends per Share paid in respect of the year ended 31st March, 1991 of 13.3p 5.1 per cent.

DESCRIPTION OF THE COMBINED OFFERS

THE COMBINED OFFERS

Under the Combined Offers, HM Treasury is offering for sale in the UK and elsewhere up to 1,350 million Shares, subject to increase to the extent and in the circumstances referred to below. The Combined Offers comprise:

- (a) the UK Public Offer in the UK and certain other countries of up to 904.5 million Shares (subject to increase as described below) at the UK Public Offer Price; and
- (b) the International Tender Offer to certain investors in the UK and elsewhere of up to 1,350 million Shares (subject to increase as described below) at the International Tender Offer Price.

Although the UK Public Offer and the International Tender Offer are being made separately, the two offers are inter-related, particularly as to matters of timing, size and price, and are being co-ordinated by the Global Co-ordinator.

The Combined Offers have not been underwritten. The Company will not receive any proceeds from the sale of Shares under the Combined Offers.

THE UK PUBLIC OFFER

The UK Public Offer is being made by means of an offer for sale in the UK and certain other countries. Under the UK Public Offer, completed application forms must be received by 10.00 a.m. on 4th December, 1991. The UK Public Offer Price will be 15p less than the International Tender Offer Price, which is expected to be determined on 9th December, 1991. Following determination of the International Tender Offer Price, the UK Public Offer Price, together with the basis of allocation of Shares sold in the UK Public Offer, will be announced. An announcement indicating provisionally the basis of allocation of Shares to be sold in the UK Public Offer (contingent upon the Combined Offers proceeding) is expected to be made on 8th December, 1991. Dealings in Interim Rights to Shares sold in the Combined Offers are expected to commence in London at 8.30 a.m. on 9th December, 1991. Different levels of preference in allocation will attach to applications on the various application forms. Further details of the forms and the relative levels of preference in allocation in the UK Public Offer are set out in Part 11 of this document.

Payment for the Shares sold under the UK Public Offer at the UK Public Offer Price will be in three instalments, the first instalment being 110p per Share, which is 15p less than the first instalment due in respect of Shares sold under the International Tender Offer. The second and final instalments will be the same under both the UK Public Offer and the International Tender Offer. The second instalment is 120p per Share and is due by 7th July, 1992 and the final instalment (which will be announced at the same time as the UK Public Offer Price) is due by 2nd March, 1993. Set out

in paragraph 8 of Part 10 of this document is a description of the instalment arrangements in respect of Shares sold in the Combined Offers.

Applicants for Shares in the UK Public Offer who are individuals may be eligible, subject to the terms as to eligibility and otherwise set out in Part 11 of this document, to receive incentives from HM Treasury, in the form of either a Share Bonus of one additional Share (subject to a maximum of 150 additional Shares) for every ten Shares purchased in the UK Public Offer and held continuously until 31st December, 1994, or, alternatively, an Instalment Discount of 15p on each of the second and final instalments on the first 1,000 Shares purchased in the UK Public Offer and held continuously until the relevant instalment is paid. Entitlements to incentives will generally be lost if Shares bought in the UK Public Offer are disposed of prior to the relevant qualifying dates.

The first dividend to which holders of Shares sold under the Combined Offers will be entitled is BT's net interim dividend for the 1992 financial year of 5.7p per Share, payable on 28th February, 1992, or as soon as possible thereafter, to holders registered on 31st January, 1992.

THE INTERNATIONAL TENDER OFFER

HM Treasury has entered into an International Tender Offer Agreement with syndicates of managers (the "Managers") in ten regions — Benelux, Canada, France, Germany, Italy, Japan, Switzerland, the UK and the Republic of Ireland, the United States, and the Rest of the World. Each regional syndicate will be led by a single Manager (a "Regional Lead Manager"). Under the terms of the International Tender Offer Agreement, the Managers have agreed to solicit from investors in their regions bids specifying the number of Shares which they would be prepared to purchase either at different specified prices or at the strike price to be fixed as the International Tender Offer Price.

Bids must be submitted on behalf of investors by a Manager, through the relevant Regional Lead Manager, to the Global Co-ordinator on behalf of HM Treasury. Bids may be so submitted from 13th November, 1991 to 5.30 p.m., London time, on 6th December, 1991 (the "Offer Period") and may be revised and updated periodically, but all final bids must be received by the Regional Lead Managers by the end of the Offer Period.

On or about 9th December, 1991, HM Treasury, in consultation with the Global Co-ordinator, will determine the International Tender Offer Price (which will be the same for all purchasers in the International Tender Offer) and, based on the final bids, allocations of Shares to bidders. If a Regional Lead Manager accepts, on behalf of its syndicate, in accordance with the provisions of the International Tender Offer Agreement, the proposed allocation to its region and the International Tender Offer Price, the Managers in that syndicate will be obliged to offer the Shares comprised

in the allocation to the bidders, and in the amounts, specified by HM Treasury. Bidders will be notified of the number of Shares allocated to them by the appropriate Manager and, on acceptance of their proposed allocation, they will become bound to purchase such Shares. Each Manager will be obliged to procure purchasers for or purchase for its own account all Shares which are not purchased by bidders notified of their allocation.

PRICING AND ALLOCATIONS

The determination of the International Tender Offer Price, the number of Shares allocated to, and sold pursuant to, each of the UK Public Offer and the International Tender Offer and the basis of allocation as between applicants in the UK Public Offer and bidders in the International Tender Offer will be determined in its absolute discretion by HM Treasury, following consultation with the Global Co-ordinator, and, therefore, there is no assurance that any applicant in the UK Public Offer (other than under certain arrangements for BT employees) or any bidder in the International Tender Offer will be allocated Shares, including an investor bidding at or above the International Tender Offer Price. The International Tender Offer Price will not necessarily be the highest price at which bids are submitted for Shares allocated to the International Tender Offer.

The price and allocation determinations will reflect a number of factors, including primarily the level of demand for Shares under the respective offers and the desire for an orderly after-market. In relation to allocations in respect of individual bids in the International Tender Offer, HM Treasury's policy will, subject to these primary considerations, aim to provide similar treatment for what it considers to be bids of substantially similar quality and price. In considering quality, HM Treasury's allocation policy will favour bids indicating specific prices and sizes at an early stage in the Offer Period, bids at specific price levels (rather than strike price bids), bids on behalf of investors perceived to be likely buyers or holders, rather than sellers in the immediate after-market, of Shares, and bids on behalf of investors who have not engaged in market activity prior to or during the Offer Period considered to have been adverse to the Combined Offers. As between bids of similar quality, bids at higher price levels will be favoured.

As at the date of this document, without in any way affecting its discretion referred to above or the reservations referred to below and assuming sufficient demand at appropriate prices to meet the primary pricing and allocation criteria referred to above, HM Treasury would expect to allocate approximately 675 million Shares to applicants under the UK Public Offer and approximately 675 million Shares to bidders under the International Tender Offer. HM Treasury expressly reserves the right to increase or decrease each of these numbers of Shares and to increase to up to 1,575 million or decrease below 1,350 million the number of Shares offered or sold pursuant to the Combined Offers. None

of these figures include the number of Shares which the Global Co-ordinator has been given the right to acquire from HM Treasury, in connection with the International Tender Offer, at the International Tender Offer Price, for the purpose of meeting over-allotments as referred to below.

Not less than 33 per cent. of the Shares sold pursuant to the Combined Offers will be allocated to the International Tender Offer, unless HM Treasury and the Global Co-ordinator agree that adequate demand has not been forthcoming in the International Tender Offer and that any reduction in the percentage allocation to the International Tender Offer is consistent with the desire for an orderly after-market.

HM Treasury expressly reserves the right to withdraw the Combined Offers at any time before the International Tender Offer Price and allocations are determined by it and accepted by the Regional Lead Managers.

In connection with the International Tender Offer, the Global Co-ordinator may over-allot or effect transactions which stabilise or maintain the market price of the Shares and/or any other securities of (or options, warrants or rights with respect to, or interests in, the Shares or other securities of) the Company at a level which might not otherwise prevail in the open market. Such transactions may be effected on the London Stock Exchange, the New York Stock Exchange or otherwise, except that no such transactions will be effected on the Tokyo Stock Exchange or The Toronto Stock Exchange. Such stabilising, if commenced, may be discontinued at any time.

The Global Co-ordinator has been given the right, solely for the purpose of meeting over-allotments made by it in connection with the International Tender Offer, to purchase from HM Treasury an additional number of Shares up to the greater of 7½ per cent. of the number of Shares sold by HM Treasury under the Combined Offers and 15 per cent. of the number of Shares sold by HM Treasury pursuant to the International Tender Offer. The International Tender Offer Agreement contains provisions designed to secure that the extent of any over-allotment is not disclosed. The Global Co-ordinator does not intend to disclose the extent of any stabilising transactions or the amount of any long or short position.

If, under the arrangements summarised above, at any time prior to the International Tender Offer Price and allocations being determined (which is expected to be on 9th December, 1991), any decision is made as to the number of Shares to be offered and/or sold pursuant to the Combined Offers or as to the number of Shares to be allocated to the UK Public Offer or the International Tender Offer or if HM Treasury becomes aware of any information which HM Treasury in its absolute discretion (after consultation with the Global Co-ordinator) considers is, or may be, material to applicants or potential applicants in the UK Public Offer, a press announcement will be issued in London and delivered to the London Stock Exchange.

DESCRIPTION OF BT'S BUSINESS

PART 3

INTRODUCTION

BT is one of the world's leading providers of telecommunication services. Its main services and products are local and long-distance telephone calls in the UK, the provision of telephone exchange lines to homes and businesses, international telephone calls made from and to the UK and the supply of telecommunication equipment for customers' premises. BT also offers a range of other products and services, including private circuits and mobile communication services and products.

The following table shows the principal components of BT's turnover during each of the last five financial years. In the 1991 financial year, 98 per cent. of BT's total turnover arose from operations in the UK.

Year ended 31st March,	1987	1988	1989	1990	1991
	£m	£m	£m	£m	£m
UK local and long-distance telephone calls	3,674	3,960	4,397	4,864	5,151
Telephone exchange line rentals	1,303	1,406	1,479	1,637	1,894
International telephone calls	1,246	1,400	1,548	1,790	1,812
Customer premises equipment supply	1,369	1,372	1,367	1,389	1,349
Other sales and services	1,747	2,047	2,280	2,635	2,948
Total turnover	9,339	10,185	11,071	12,315	13,154

BT'S SERVICES

UK telephone service

Within the UK, the Company has more than 25 million customer lines (exchange line connections), comprising nearly 20 million residential lines and nearly six million business lines, over which, on average, approximately 85 million telephone calls are made each day. Telephone calls comprise both voice and non-voice traffic, such as facsimile and data transmission.

The following table shows the estimated growth rates in the volume of BT's UK local and long-distance telephone calls in each of the last five financial years and in the twelve months ended 30th September, 1991:

Year ended	31st March,					30th
	1987	1988	1989	1990	1991	September, 1991
Estimated growth over previous year in BT's UK telephone call volume	7%	8%	11%	10%	4%	2%

Note: Growth is estimated on a twelve-month moving average basis by reference to revenue growth attributable to UK local and long-distance telephone calls, adjusted to eliminate the effect of price changes.

Over this period, call growth has resulted both from the increase in the number of lines in service and from their usage; for example from the increased use of

facsimile. The price structure for call charges is complex, varying with distance, duration, route, time of day and usage.

BT's exchange line customers are generally charged a uniform quarterly rental per line, the charges for business lines being higher than for residential lines. The following table shows, for BT's business and residential exchange lines, the number of connections at the end of each of the last five financial years and at 30th September, 1991 and the respective percentage growth over the number of connections one year previously:

	At 31st March,					At 30th
	1987	1988	1989	1990	1991	September, 1991
Business ('000)	4,279	4,625	5,111	5,632	5,879	5,940
Growth	5.3%	8.1%	10.5%	10.2%	4.4%	2.6%
Residential ('000)	17,549	18,145	18,737	19,281	19,609	19,729
Growth	2.5%	3.4%	3.3%	2.9%	1.7%	1.4%
Total connections ('000)	21,828	22,770	23,848	24,913	25,488	25,669
Growth	3.0%	4.3%	4.7%	4.5%	2.3%	1.7%

BT also undertakes the installation and reconnection of exchange lines. Charges for these services are included under "Other sales and services".

International telephone calls

The greater part of BT's international telephone call volume is generated from a limited number of routes. 80 per cent. of outgoing call volume is to 20 countries, the largest element of which, calls to the US, accounted for 20 per cent. of outgoing call volume in the 1991 financial year. Part of BT's international call volume arises because the UK is one of the world's principal telecommunication transit centres, enabling calls originating and terminating outside the UK to be routed through it. International direct dialling from BT's UK network is available to more than 200 countries and other territories, and almost all international calls originating from BT's UK network are now direct dialled.

The following table shows the estimated growth rates in the volume of BT's international telephone calls (outgoing and incoming) in each of the last five financial years and in the twelve months ended 30th September, 1991:

Year ended	31st March,					30th
	1987	1988	1989	1990	1991	September, 1991
Estimated growth over previous year in BT's international call volume	11%	14%	13%	13%	6%	3%

Note: Growth is estimated on a twelve-month moving average basis by reference to revenue growth attributable to international telephone calls, adjusted to eliminate the effect of changes in prices and in currency exchange rates.

Growth in the volume of international calls over this period has resulted, as with UK telephone calls, both from the increase in the number of lines in service and from their usage.

International call turnover is derived from outgoing calls made by customers in the UK and from receipts from overseas telecommunication operators for incoming calls which use BT's facilities. In turn, BT makes payments to overseas operators for the use of their facilities. The rates for payments (known as "accounting rates") are agreed bilaterally under the general auspices of the International Telecommunication Union. BT's payments and receipts are broadly in balance overall.

Over recent years, reductions in accounting rates have generally not kept pace with reductions in the underlying costs of providing international telecommunication services. BT is seeking lower accounting rates around the world and lower rates have recently been agreed with a number of overseas operators. Lower accounting rates increase BT's flexibility in pricing international telephone calls.

The US Federal Communications Commission (the "FCC") and the European Commission are currently separately reviewing arrangements governing accounting rates and international call prices. BT does not currently expect to be materially affected by the outcomes of these reviews.

Customer premises equipment supply

BT sells and rents a wide range of equipment for customer premises, from telephones for use in the home to advanced private exchange equipment for businesses. The market for these products is highly competitive.

BT has recently been reducing its interests in its relatively small manufacturing activities and is reviewing the options for its 51 per cent. shareholding in Mitel Corporation ("Mitel"), a Canadian manufacturer of electronic telecommunication equipment.

Other sales and services

Private circuits

BT provides customers with private circuits, which are lines between fixed points reserved for the exclusive use of a customer, leased at a fixed rate irrespective of usage. About one million UK and international private circuits are in service.

Mobile communications

Mobile communication services and products supplied by BT include cellular telephony, radiopaging and voice messaging. In recent years, cellular telephony has been one of the fastest growing sectors of the telecommunications industry in the UK and overseas, although growth in the UK has recently slowed substantially.

The Company owns 60 per cent. of Cellnet, one of two UK cellular telephone network operators licensed by HM Government. The other licensed operator is Vodafone. Operating since 1985, Cellnet's network

reaches nearly all of the UK and covers all major populated areas. In the 1991 financial year, Cellnet increased the capacity of its systems by 50 per cent. in order to improve service quality. Cellnet is also developing a system as part of a planned pan-European digital cellular network.

The following table shows the number of telephones subscribed to Cellnet's network at the end of each of the last five financial years and at 30th September, 1991:

Cellnet						
	At 31st March,					At 30th
	1987	1988	1989	1990	1991	September, 1991
Cellular telephones in the UK ('000)	64	130	258	429	509	524

BT estimates that the total number of telephones subscribed to the two UK cellular networks at 30th September, 1991 was 1.2 million.

BT also owns approximately 20 per cent. of the total equity and voting rights of McCaw Cellular Communications, Inc. ("McCaw"), a major US cellular telephone operator, which is engaged in the acquisition, construction and operation of cellular and other mobile systems in the US. Under US law, the FCC has power to limit, and typically has limited, the level of total non-US ownership, whether direct or indirect, in cellular telephone operators, such as McCaw, to not more than 25 per cent. of the capital stock.

Other activities

BT owns the UK Yellow Pages business, which provides a series of regional classified information directories to meet both consumer and business needs.

Managed networked services, allowing the transmission of large volumes of computer data, are provided for major customers by BT Tymnet, headquartered in California. Local access to the BT Tymnet network is available from nearly 800 cities in the US, with communication links to over 100 countries and other territories around the world. In September 1991, BT announced the formation of Syncordia, a company aimed at serving multi-national companies wishing to have a single contractor to manage their complex international telecommunication systems.

BT is increasingly providing wholesale telecommunication services, whereby existing telecommunication operators and new entrants to the UK telecommunications market can utilise BT's network through interconnection to it.

BT also provides a range of value-added services, including consumer information and messaging and business information services carried over its telephone network. It also provides specialist data communication facilities and manages telecommunication systems software and facilities for customers. Turnover from these activities is included variously in the range of BT's services described above.

NETWORK MODERNISATION AND CAPITAL EXPENDITURE

For several years, BT has been engaged in an extensive programme of modernising, improving and expanding its telecommunication network. In June 1990, BT completed the installation of digital switching and associated transmission equipment throughout the UK long-distance network and it continues to instal local digital telephone exchanges to replace electro-mechanical exchanges. BT is also continuing to instal optical fibre cable in the network. Although more expensive to instal than copper wiring, optical fibre is cheaper to maintain and allows increased capacity.

Movement towards a digital network has already improved call quality for customers and provided management with more flexibility and control, and is leading to reductions in maintenance man hours, as digital switching equipment contains almost no moving parts. It also makes possible the integration of a range of voice, data and other services into a single Integrated Services Digital Network ("ISDN"). ISDN is being offered to business customers served by digital exchanges.

Capital expenditure

BT's capital expenditure over the last five financial years and over the six months ended 30th September, 1991 is shown in the table below:

	Year ended 31st March,					Six months ended 30th September, 1991
	1987	1988	1989	1990	1991	1991
	£m	£m	£m	£m	£m	£m
Plant and equipment						
Transmission	641	820	1,061	1,378	1,310	576
Telephone exchanges	727	712	852	952	799	343
Other network equipment	275	298	313	325	314	145
Computers and office equipment	241	241	369	205	168	54
Motor vehicles and other	78	67	111	173	122	54
Land and buildings	178	241	167	185	113	24
Increase (decrease) in engineering stores	—	(18)	74	(103)	(68)	(21)
Total	2,140	2,361	2,947	3,115	2,758	1,175

BT's capital expenditure in the 1992 financial year is expected to be at a level slightly below that of the 1991 financial year and concentrated on the continuing modernisation and expansion of the UK network.

In all major areas of supply (including digital exchange equipment), BT considers that there are sufficient alternative manufacturers to make it unlikely that the interruption of any one source would cause more than a short-term disturbance of its operations.

UK network

Under the programme of exchange modernisation, over half of the customer lines in service are now served by local digital exchanges. The following table shows the percentage of customer lines in service served by type of exchange, the percentage of UK long-distance telephone calls switched digitally and the percentage availability of itemised billing (made possible by exchange modernisation) at the end of each of the last five financial years and at 30th September, 1991:

	At 31st March,					At 30th September, 1991
	1987	1988	1989	1990	1991	1991
Customer lines served by type of telephone exchange (%):						
Digital	1.6	9.8	23.1	37.7	46.9	50.5
Semi-electronic (analogue)	41.6	42.0	40.3	38.6	37.1	36.1
Electro-mechanical (analogue)	56.8	48.2	36.6	23.7	16.0	13.4
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
UK long-distance telephone calls switched digitally (%)	25.4	61.1	78.2	98.9	100.0	100.0
Itemised billing availability (%)	0.1	0.5	3.8	37.0	73.9	78.3

Optical fibre accounts for approximately 80 per cent. of the UK long-distance network's current capacity. In the junction network (connecting local exchanges), optical fibre generally continues to be the most cost effective method of meeting new capacity requirements. BT also continues to improve and modernise its local network of cables. While only a very small proportion of the local network's capacity is currently provided by optical fibre cable, where there is sufficient demand and BT judges that it will be economic to do so, optical fibre will be deployed to connect customers' equipment to the local exchange. BT believes that, in general, installing optical fibre to residential customers is only likely to be economic if television and entertainment services can also be carried over it. BT considers that, under the present licensing arrangements regarding these services, it is unlikely to instal optical fibre to residential customers on a widespread basis over the next few years.

International networks

BT continues to invest in its international digital cable and satellite network infrastructure to support a growing range of advanced communication services between the UK and the rest of the world. Optical fibre cable links are now available from the UK to continental Europe, North America and Japan. About 95 per cent. of BT's international telephone calls are now switched through digital exchanges. BT has investments in a number of international consortia which provide, own and maintain undersea cable systems and satellite communication services.

Research and development

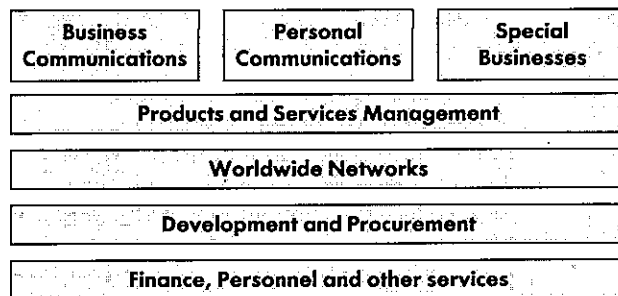
Recognising the pace of technological change in the telecommunications industry, BT undertakes a wide range of research and development activities. The major part of BT's expenditure on research and development, which in the 1991 financial year totalled £243 million, is directed towards the development of new and improved networks and services for customers. Increasingly, resources are being devoted to software systems to provide better managed and more intelligent networks, but work also continues on optical fibre systems, speech and image processing and mobile applications.

ORGANISATION AND EMPLOYEES

Organisation

As part of a major reshaping of the Group, a new organisation structure was introduced on 1st April, 1991 aimed at serving customers in BT's chosen markets more effectively.

BT is now organised into three customer-facing operating divisions: Business Communications, Personal Communications and Special Businesses, and a number of support units. The following is a graphical representation of the new BT organisational structure:



Business Communications and Personal Communications provide the primary interface between BT and its customers, whether business or residential, for the provision of UK and international calls, exchange lines and equipment supply, while the Special Businesses division is responsible for providing customers with certain of the services described above under "BT's Services — Other sales and services". Worldwide Networks brings together responsibility for BT's UK and international networks, and the other support units provide specialised services to the three customer-facing divisions to enable them to carry out their various functions, but, generally, do not deal directly with customers.

Employees

The following table shows the total number of BT's employees at the end of each of the last five financial years and at 30th September, 1991:

BT's employees					
	At 31st March,				At 30th September,
	1987	1988	1989	1990	1991
Total employees ('000)	234	237	244	246	227

The number of BT's employees has fallen since March 1990 as a result of a reduction in layers of management, improvements in operating efficiency, a reduction in directory enquiry work, contracting-out of certain services, and business disposals.

Over 80 per cent. of the Company's employees belong to four main trade unions recognised by the Company. The pattern of industrial relations in the last three years has been generally stable, apart from some limited industrial action undertaken in pursuit of certain 1989 and 1990 pay claims, which were subsequently resolved. The substantial reduction in numbers employed since March 1990 has been implemented without disruption to BT or its customers.

Most BT employees are members of one of two contributory BT pension schemes.

QUALITY OF SERVICE

BT places much importance on the quality of service that it provides to its customers. Certain quality of service measures are published by BT every six months for the months of March and September. These measures are defined by BT and in certain cases are obtained through statistical estimation. In some cases the basis of the measurement has changed over time. Overall, these measures have shown a significant improvement over recent years. These improvements have resulted from various factors, including investment in network modernisation, which has led to improved reliability, and, BT also believes, from closer management control, better deployment of resources and the introduction of modern fault detection systems. The published measures have shown, for example, an overall reduction in the proportion of calls that fail due to faults or congestion in the network, and in the time taken to respond to faults reported by customers.

REGULATION, COMPETITION AND PRICES

BT operates in the UK in an environment of growing competition and extensive regulation. BT runs its public telecommunication network under the Licence, granted by the Secretary of State, which includes conditions designed principally to ensure the provision in the UK of widespread telecommunication services, to protect the interests of consumers and to encourage the development of effective competition. In addition to the powers of the Secretary of State, the Director General has broad supervisory powers and duties under the regulatory system. Accordingly, an important factor in the impact on BT of the regulatory system is how the Secretary of State and the Director General exercise their powers (many of which allow considerable discretion) and perform their duties. The Director General, Sir Bryan Carsberg, holds his current appointment until June 1992.

In November 1991, HM Government published legislative proposals to strengthen the powers of the regulators of the UK telecommunications industry regarding performance standards and customer service. The draft legislation contains proposals which BT believes are likely to have adverse effects on BT,

certain of which may be material, but the full extent of these effects cannot be assessed until the legislation is enacted and the powers are exercised from time to time.

In addition, as BT expands its interests and activities outside the UK, regulatory regimes elsewhere in the world are becoming an increasingly important feature of its operating environment.

From 1984, when BT's effective UK telecommunications monopoly ended, HM Government's policy was that BT and Mercury Communications Limited ("Mercury"), a subsidiary of Cable and Wireless plc, should be the only operators licensed to provide public fixed-link telecommunication services in the UK. To date, BT's principal competitor has, therefore, been Mercury and BT has, in recent years, been subject to increasing competition, leading to reductions in its market share. BT believes that, in the twelve months ended 30th September, 1991, it had an estimated 92 per cent. share of the UK business market for telephone calls and provision of exchange lines and an estimated 83 per cent. share of the total UK market for international call services.

In March 1991, HM Government concluded a detailed review of UK telecommunication services (the "Review") resulting in a number of important changes to the regulatory environment in which BT operates. The main outcome of the Review is that HM Government will seek to promote further competition within the UK market for both domestic and international telecommunication services. In particular, HM Government will consider applications from any number of applicants for licences to offer public fixed-link services within the UK, with a presumption in favour of applications being granted.

From 1984, BT has been subject to controls restricting the prices it may charge for its main services. These controls allow room for flexibility as to price changes for particular services within an overall limit set by the controls. The controls have been periodically tightened since 1984 by increasing the percentage amount below the change in RPI (referred to as "RPI minus" the percentage) to which price increases are limited and by expanding the range of services covered by the controls.

As a result of the Review, the overall limit on price increases for BT's main services from August 1991 is RPI minus 6.25 (having previously been RPI minus 4.5) and international call prices are now covered by this control, as well as UK call prices and exchange line rentals. The results of the Review also included changes to the constraints on BT's ability to increase exchange line rentals and connection charges, and on the annual rate of increase in the median residential customer's bill, which is limited to the annual increase in the RPI. A separate price control (currently RPI minus 0) covers private circuit prices and now covers international as well as UK private circuits.

There has recently been considerable UK press comment on the level of BT's prices and profits. The

current price control arrangements will expire on 31st July, 1993. Price controls after that date would require an amendment to the Licence, either agreed by the Company with the Director General or imposed on the Company by the Director General following recommendation from the Monopolies and Mergers Commission (the "MMC") on the grounds of public interest.

As part of the Review, the conditions under which BT may introduce flexible pricing packages, including volume discounts, have been clarified. The introduction of the defined flexibility for pricing packages will be permitted in stages over a period of transition between 1991 and 1995.

BT considers that it incurs a substantial operating deficit on the provision of exchange lines and is aiming to "rebalance" its prices, so that exchange line rentals and connection charges are increased and call prices decreased, better to reflect the costs of providing these services. Following the Review, the Director General has reaffirmed the desirability of continuing rebalancing between exchange line rentals and connection charges and call prices and has confirmed that his inclination is to support continued rebalancing after July 1993, unless conditions in the industry have changed. He expects that a limitation on increases in the median residential customer's bill to increases in the RPI will be the main constraint on rebalancing after July 1993.

BT must permit the interconnection to its system of certain other systems appropriately licensed for the provision of telecommunication services to the public. The charges currently paid to BT for interconnection only reflect to a limited extent the deficit incurred by BT in providing exchange lines. Following the Review, greater contributions by other telecommunication operators towards this deficit may be required, while restrictions on rebalancing exist. The Director General may, in certain circumstances, waive all or part of these contributions, taking account of a number of market-related factors.

Following the Review, the Director General has indicated that, if requested, and subject to the results of a cost benefit analysis, he will permit the introduction of some form of "equal access", allowing customers to choose between long-distance operators with equal ease. The timetable for the introduction of equal access is, however, uncertain.

HM Government has also decided to continue to restrict BT's activities in the provision of cable television services over its main network and the provision of mobile services. As a result of the Review, cable television operators will be allowed to offer voice telephony services independently and mobile operators may apply to offer certain fixed-link services.

Additional information regarding BT's market share is contained in Part 4 of this document. A fuller description of the regulatory and competitive environment in which BT operates, and the changes resulting from the Review is set out in Part 9 of this document.

INTRODUCTION

The principal factors which have affected BT's recent financial performance have been the state of the UK economy, increased competition, the regulatory regime in which BT operates in the UK, BT's continued investment in network modernisation and, from the 1991 financial year, the restructuring of the Group and an increased emphasis on cost control.

Financial information for BT's last three financial years and for the six month periods ended 30th September, 1990 and 1991 is set out in Part 6. The table below sets out a summary analysis of BT's turnover, operating costs and funds flow for those periods:

	Year ended 31st March,			Six months ended 30th September, (unaudited)	
	1989 £m	1990 £m	1991 £m	1990 £m	1991 £m
Turnover					
UK local and long-distance telephone calls	4,397	4,864	5,151	2,528	2,590
Telephone exchange line rentals	1,479	1,637	1,894	893	1,025
International telephone calls	1,548	1,790	1,812	915	908
Customer premises equipment supply	1,367	1,389	1,349	675	613
Other sales and services	2,280	2,635	2,948	1,464	1,496
Total turnover	11,071	12,315	13,154	6,475	6,632
Income from other telecommunication operators, included above	688	870	899	441	485
Operating costs					
Staff costs	3,914	4,175	4,354	2,152	2,176
Own work capitalised	(497)	(526)	(558)	(268)	(270)
Depreciation	1,610	1,791	1,935	954	1,009
Payments to telecommunication operators	739	893	894	446	468
Other operating costs	2,678	2,962	3,162	1,540	1,542
Other operating income	(180)	(190)	(164)	(101)	(73)
Total operating costs	8,264	9,105	9,623	4,723	4,852
Operating profit	2,807	3,210	3,531	1,752	1,780
Funds flow					
Sources of funds net of taxation paid	3,052	3,726	4,209	2,430	2,534
Capital expenditure	(2,947)	(3,115)	(2,758)	(1,327)	(1,175)
Acquisition of subsidiary undertakings and investments	(42)	(1,156)	(25)	(19)	(14)
Dividends paid	(619)	(663)	(769)	(440)	(506)
(Increase) decrease in working capital	(71)	178	(46)	5	(100)
Net cash inflow (outflow) from operations	(627)	(1,030)	611	649	739

BT essentially operates as a unitary business, providing an integrated range of telecommunication products and services. Accordingly, BT does not generally attribute its assets and costs to specific products or services and does not publish operating profit separately for the various sources of turnover. However, BT considers that its operating profit is derived predominantly from UK and international telephone calls, after taking account of a substantial operating deficit arising on the provision of exchange lines.

BT's recent financial performance should be considered in the context of slower growth in the UK economy in the 1990 financial year and recession in the 1991 financial year. In the 1991 financial year, the gross domestic product of the UK declined by an estimated 0.4 per cent., compared with increases of 3.6 per cent. and 1.4 per cent. in the 1989 and 1990 financial years, respectively. Growth in demand for BT's main services declined progressively throughout the 1991 financial year and the first half of the 1992 financial year, as the UK economy weakened.

BT has also been subject to increasing competition. BT believes that, in the twelve months ended 30th September, 1991, it had almost all of the UK residential market for telephone calls and provision of exchange lines. BT also believes that in the same period it had an estimated 92 per cent. share of the UK business market for those services, compared with approaching 100 per cent. in the 1984 financial year and 94 per cent. in the 1991 financial year. BT's market share has, however, been more significantly eroded for certain products and services, and competition has been felt most strongly in the financial district of London, where BT estimates that it had approximately a 70 per cent. market share for telephone services in the 1991 financial year. For international call services, BT believes it had an estimated 83 per cent. market share in the twelve months ended 30th September, 1991, compared with 100 per cent. in the 1984 financial year and 85 per cent. in the 1991 financial year. The customer premises equipment supply market is highly competitive, and Cellnet has always faced strong competition from its sole competitor, which has a higher share of the UK cellular telephone market.

BT is subject to controls restricting the prices it may charge for services which account for the majority of its turnover. In the 1990 and 1991 financial years, BT was required to keep the increases in prices for its main services, principally UK telephone calls and exchange line rentals, 4.5 percentage points below the annual increase in the RPI and the increases in the prices for most UK private circuits no higher than the annual increase in the RPI. BT estimates that these limits affected about 55 per cent. of its turnover in the 1991 financial year. Following the Review, the RPI minus 4.5 formula has been changed to RPI minus 6.25 and now also covers international telephone calls made from the UK. Although the private circuit price control remains at RPI minus 0, it now additionally covers international circuits. With these changes, BT estimates that about

64 per cent. of its turnover in the 1991 financial year would have been subject to price controls.

In the 1989, 1990 and 1991 financial years, BT's earnings per Share before exceptional items increased by 10.1 per cent., 12.4 per cent. and 16.4 per cent., respectively, primarily as a result of growth in turnover, and, in the 1991 financial year, the restructuring of the Group, an increased emphasis on cost control and a lower interest charge. BT's operating costs as a percentage of turnover were 74.6 per cent., 73.9 per cent. and 73.2 per cent., in the 1989, 1990 and 1991 financial years, respectively. BT's dividends per Share for the 1989, 1990 and 1991 financial years increased by 10.5 per cent., 12.4 per cent. and 12.7 per cent., respectively.

In the first half of the 1992 financial year, competitive and regulatory pressures increased, and the economic environment in the UK remained subdued. BT's turnover in the second quarter of the financial year grew by less than 1 per cent. over the corresponding period of the previous year. Against this background, earnings per Share for the first half of the 1992 financial year grew by 3.9 per cent., largely as a result of continued firm cost control and a lower net interest charge. Operating costs as a percentage of turnover were 73.2 per cent. Notwithstanding the above environment, BT increased its interim dividend per Share for the 1992 financial year by 8.6 per cent. over the interim dividend for the 1991 financial year, taking into account BT's strong cash flows and improved net gearing.

1991 FINANCIAL YEAR

Turnover

Turnover for the 1991 financial year amounted to £13,154 million, an increase of 6.8 per cent. over the previous year. About half of this increase was due to price increases and the balance was almost wholly due to volume increases. By contrast, in the 1990 financial year, volume increases accounted for over three-quarters of the growth in turnover.

In the 1991 financial year, growth in UK and international call volumes was restricted by a slowdown in economic growth in the UK, notably in the service sector, and generally in other Western economies, together with increased competition. UK telephone call turnover grew by 5.9 per cent. to £5,151 million; volume growth of an estimated 4 per cent. was the lowest since the 1983 financial year. The balance of turnover growth was attributable to overall price increases introduced in September 1989 and 1990. After several years of significant growth, international call turnover increased only marginally by 1.2 per cent. to £1,812 million. Volume growth of an estimated 6 per cent. was the lowest recorded for over a decade and was substantially offset by the strengthening of sterling against the major currencies during the year and price reductions for some incoming calls.

By contrast, exchange line rental turnover maintained its growth, mainly due to increases in rentals

as part of BT's price rebalancing policy. Rentals were increased by around 10 per cent. and 12 per cent. in September 1989 and 1990, respectively. Turnover increased by 15.7 per cent. to £1,894 million, reflecting not only the effects of these price increases but, to a lesser extent, the expansion of the UK telephone network. The number of exchange line connections grew by 2.3 per cent. in the 1991 financial year, a much lower rate than that experienced in recent years, having been affected by the slowdown in economic growth.

The supply of customer premises equipment continued to be affected by competitive pressures and the economic slowdown. As a result, turnover fell by 2.9 per cent. to £1,349 million.

Turnover from other sales and services grew in total by 11.9 per cent. to £2,948 million. Almost all the growth occurred in the first nine months of the year and was mainly due to increased turnover from private circuits, the inclusion of BT Tymnet (acquired in November 1989) for a full year and increased turnover from wholesale telecommunication services, Cellnet and Yellow Pages.

Operating costs

BT considers that firm control of costs and continuing investment in the network enabled management to contain the increase in operating costs to 5.7 per cent., while improvements in the published quality of service measures continued to be made.

BT's programme of reducing layers of management and improving operating efficiencies were among the factors that led to an employee reduction in the year of 18,800, some 8 per cent. of BT's total employees at the end of the 1990 financial year. The reduction included over 6,000 managers and professional people, many of whom left under an early release scheme, and around 1,200 people working for businesses disposed of by the Group. The reduction in the number of employees, reduced overtime working and the benefit of reduced pension costs since July 1989 enabled the impact of pay awards to be reduced. As a result, staff costs grew by only 4.3 per cent. to £4,354 million.

The depreciation charge rose by 8 per cent. to £1,935 million, a lower increase than that for the 1990 financial year, reflecting a reduction in capital expenditure in the 1991 financial year. Payments to telecommunication operators were virtually unchanged at £894 million. Other operating costs increased by 6.8 per cent. to £3,162 million, due principally to an increase in bad and doubtful debts (which increased by 68 per cent. to £222 million, mainly as a result of the UK recession), higher maintenance costs, the inclusion for a full year of the operating costs of BT Tymnet, and provisions made by Mitel for rationalisation and restructuring.

Operating profit and interest

Operating profit grew by 10.0 per cent. to £3,531 million in the 1991 financial year.

The net interest charge reduced by £67 million to £417 million, mainly due to a lower level of net debt as a consequence of the greater funds flow from operations in the 1991 financial year and lower capital expenditure.

Exceptional charge

In the 1990 financial year, an exceptional charge of £390 million was made to establish a provision to cover the costs of restructuring the Group. Costs of £155 million were charged against the provision in the 1991 financial year, the substantial part of which were severance payments to managers leaving BT. A provision of £235 million remained at 31st March, 1991 to cover the costs of continuing reductions in the number of employees and planned disposals of certain of the Group's non-core interests.

Profit, taxation and minority interests

In the 1991 financial year, BT's profit before taxation increased by 14.2 per cent. to £3,075 million, compared with £2,692 million (before the exceptional charge) in the previous year. The taxation charge of £995 million represented 32.4 per cent. of pre-tax profit. Profit after taxation was £2,080 million and earnings per Share were 34.0p, compared with £1,789 million and 29.2p, respectively, in the 1990 financial year (before the exceptional charge).

There was no minority interest charge for the year, primarily because the profits attributable to minority shareholders of Telecom Securicor Cellular Radio Limited, the operator of Cellnet, were wholly offset by the losses attributable to the minority shareholders of Mitel.

Funds flow and financing

BT's sources of funds, net of taxation paid, (including proceeds from the sale of fixed assets) totalled £4,209 million, 13.0 per cent. higher than in the 1990 financial year. Outflows, principally capital expenditure and dividends, totalled £3,598 million, resulting in a net cash inflow of £611 million for the year. This compares with a net outflow of £1,030 million in the previous year, which included the investment in McCaw of £907 million and the acquisition of BT Tymnet for £231 million.

At 31st March, 1991, BT had net debt (borrowings net of cash and current asset investments) of £3,641 million and net gearing (net debt as a proportion of capital and reserves and minority interests) of 34.1 per cent., compared with £4,473 million and 47.9 per cent., respectively, at the beginning of the 1991 financial year.

Capital expenditure

Capital expenditure on plant, equipment and property totalled £2,758 million, compared with £3,115 million in the previous year. This amount included expenditure on telephone exchanges of £799 million, compared with £952 million in the 1990

financial year. The lower capital expenditure in part reflected a reduction in orders by BT for digital exchanges in the 1990 financial year and a revision of payment patterns from the start of the 1991 financial year.

FIRST HALF OF THE 1992 FINANCIAL YEAR

The comparisons referred to below relate to the first half of the 1991 financial year, unless otherwise stated.

Turnover

BT's turnover in the half year grew by 2.4 per cent. to £6,632 million with growth in the second quarter at 0.7 per cent. over the second quarter of the 1991 financial year. BT attributes this low growth in turnover to a combination of factors, including the continuing recession in the UK, increased competition and the effects, from September 1991, of overall price decreases under the new RPI minus 6.25 formula.

UK telephone call turnover in the half year increased by 2.5 per cent. to £2,590 million, whereas international call turnover in the half year declined marginally to £908 million. For the twelve months ended 30th September, 1991, UK call volume was approximately 2 per cent. above the previous year on a twelve-month moving average basis and international call volume was about 3 per cent. above the previous year. There was, however, a decline in UK call volume in the second quarter of the 1992 financial year over the second quarter of the 1991 financial year. For international calls, the second quarter on prior year second quarter growth was less than the year on year growth for the twelve months ended 30th September, 1991.

Turnover from directory enquiry charges, introduced in April 1991, was considerably less than the turnover forgone by an overall reduction in UK and international call prices of approximately 5 per cent. introduced at the same time. International call turnover for the half year reflected the initial effect of the average 9.6 per cent. price reduction on outgoing international calls from September 1991 and continuing reductions in prices for incoming calls from some countries.

Telephone exchange line rentals grew by 14.8 per cent. to £1,025 million for the half year. This growth reflected price increases concentrated in this part of the business and, to a small extent, the expansion of BT's UK telephone network. The numbers of business exchange lines grew by 2.6 per cent. and residential lines by 1.4 per cent. over the twelve months to 30th September, 1991, an overall increase in exchange lines of 1.7 per cent.

Turnover from the supply of customer premises equipment declined by 9.2 per cent. to £613 million, largely reflecting economic and competitive pressures. Turnover from other sales and services grew by 2.2 per cent. to £1,496 million for the half year, largely reflecting similar pressures.

Operating costs

Total operating costs, which continued to be firmly controlled, increased by 2.7 per cent. to £4,852 million and, excluding property profits, rose by only 2.0 per cent. to £4,861 million for the half year; the second quarter of the 1991 financial year included one large property disposal yielding a profit of £40 million. Staff costs were largely contained at £2,176 million, with the effect of pay awards being almost wholly offset by reductions in numbers employed and lower overtime worked. BT employed a total of 220,000 people at 30th September, 1991, a reduction of 7,000 since 31st March, 1991, which included 2,000 people who left BT as a consequence of the contracting-out of certain services.

Depreciation increased by 5.8 per cent. to £1,009 million, a lower percentage increase than for the whole of the 1991 financial year, reflecting the recent reduction in capital expenditure. The increase of £22 million in payments to telecommunication operators largely reflected those made to UK operators for calls terminating on their networks, as well as the growth in international call volume.

Other operating costs for the half year, at £1,542 million, were virtually unchanged. The charge for bad debts continued at a high level, principally as a result of the UK recession.

Operating profit and interest

Operating profit grew by 1.6 per cent. to £1,780 million in the half year. However, operating profit for the second quarter fell to £860 million, 3.2 per cent. lower than that for the second quarter of the 1991 financial year, although the second quarter of the 1991 financial year included the property disposal yielding a profit of £40 million.

The net interest charge was reduced by £50 million to £170 million, mainly due to a further reduction in the level of net debt.

Profit, taxation and minority interests

BT's profit before taxation for the first half of the 1992 financial year increased by 5.1 per cent. to £1,610 million, reflecting the above factors, including the £50 million reduction in the net interest charge. The taxation charge of £523 million represented 32.5 per cent. of pre-tax profit. The £5 million increase in minority interests to £15 million reflected principally the improved financial performance of Cellnet during the first half of the 1992 financial year.

Funds flow and financing

BT's sources of funds, net of taxation paid, (including proceeds from the sale of fixed assets) totalled £2,534 million in the first half of the 1992 financial year, 4.3 per cent. higher than in the first half of the 1991 financial year. After deducting outflows, principally capital expenditure and dividends, BT had a net cash inflow of £739 million for the half year. This was used to reduce net debt to £2,869 million at 30th September, 1991. Gearing was 25.1 per cent. at 30th September, 1991, compared with 35.1 per cent. a year earlier.

Capital expenditure

Capital expenditure on plant, equipment and property in the half year totalled £1,175 million, compared with £1,327 million in the first half of the 1991 financial year; there was lower investment in Cellnet and lower property expenditure.

McCaw

McCaw is engaged in the acquisition, construction and operation of cellular and other mobile systems in the United States. McCaw is in a start-up phase and, as a result of development costs, has experienced losses from continuing operations, excluding exceptional gains from sales of assets, since its inception.

BT's share of these losses amounted to £34 million in the 1991 financial year and £11 million in the first half of the 1992 financial year. These losses were fully offset by utilisation of part of a provision made by BT at the time of acquisition to cover the estimated costs of McCaw's commitments and developments in progress. As a result, McCaw's losses did not adversely affect BT's results for those periods. The balance of the provision at 30th September, 1991 of £47 million will be available for utilisation by BT in the future.

McCaw has publicly stated that it does not expect its operations to generate sufficient cash to meet its expenditure requirements for the next several years. McCaw has also stated that it will have to borrow significant additional amounts under a bank facility currently in place (provided certain conditions can be satisfied). In the event that the funds to meet these expenditure requirements have to be raised from alternative sources and that McCaw were to raise further equity capital, BT has the right to participate in equity issues (so as to maintain its proportional interest in McCaw at approximately its existing level), but is not obliged to do so.

CURRENT TRADING

In commenting on BT's results for the first half of the 1992 financial year, released on 1st November, 1991, the Chairman of BT said:

"BT is committed to continuous improvements in productivity and quality. Competitive and regulatory pressures have increased and the economic environment in the UK remains subdued. These factors, including the tighter price restraint at RPI minus 6.25, will depress near-term prospects in the absence of any significant growth in turnover."

THE FUTURE

The demand for and range of telecommunication services, both in the UK and internationally, grew significantly in the 1980s. BT believes that such factors as the increasing importance to businesses and individuals of telecommunications, overall price reductions in real terms and the introduction of new services will mean that telecommunications continues to be a growth industry during the 1990s. BT's aim is to exploit this potential growth against a background of increasing competition, extensive regulation and the condition of the UK economy.

In the UK, BT already faces competition in all its major product and service areas and HM Government has stated its intention to seek to promote further competition within the UK market for both domestic and international services. BT believes that increasing competition, both from existing competitors and from new entrants to the market, will continue to result in BT losing market share, including in some of its more profitable areas of operation.

A general election in the UK must be held by July 1992. BT cannot, however, assess the consequences for its business, if any, of the outcome of the election.

As regards the regulatory environment in which it competes, BT believes that the greater commercial freedom afforded to it as a result of the Review, in terms of its ability to offer pricing packages, will improve its competitive position and that, in due course, it will be able to compete on more even terms. However, the decisions to end the duopoly policy, to permit cable television operators to offer voice telephony services, and to allow mobile operators to offer fixed services using their radio networks, may all be expected to increase the competition which BT faces. The changes resulting from the Review will all have a financial impact on BT, although BT cannot, at present, gauge what the combined financial impact will be.

The current RPI minus 6.25 price control expires in July 1993. Consideration of the form of price control that may replace the current control, which is expected

to begin in early 1992, would not necessarily be limited to setting the value of "x" in the RPI minus x formula, or even to price control, and could lead to more extensive changes to Licence conditions. This process could involve a reference to the Monopolies and Mergers Commission.

BT believes that the discretion exercisable by the Director General is an important factor in the future of BT and therefore attaches importance to his various statements in Part 9 of this document.

Demand for telecommunication services in the UK has been historically affected by the condition of the UK economy. BT believes that this is likely to remain the case, but that the benefit to BT from any improvement in the UK economy will be affected by the factors described above.

Following a major restructuring undertaken in the 1991 financial year, BT has an organisational structure which is designed to give BT the focus and flexibility to meet the needs of different types of customers. BT will continue to seek further improvements in productivity and in the efficiency of its operations, both as a result of continued investment in the network and through firm control of costs. In particular, BT expects to continue to make reductions in the number of its employees and has stated that the total number of employees is expected to fall by about 16,000 by March 1993.

BT is also seeking to implement further improvements in quality of service to its customers, continuing to encourage increasing use of its network and pursuing its policy of price rebalancing. Major investment in the network continues and BT is using its knowledge of advanced technology to improve existing services and to develop new services. In particular, BT is continuing to develop mobile services, and managed networked services for multi-national business customers.

BT currently derives approximately 98 per cent. of its turnover from its operations in the UK, which are likely to remain predominant for the foreseeable future. BT believes that the shape of the telecommunications industry in many countries is changing, and that there will be scope for BT to develop its business in its chosen markets overseas, concentrating on providing telecommunication networks and services over those networks. BT will continue to explore opportunities as they arise, including those for significant acquisitions, joint ventures and other alliances.

BT believes that it has a strong base upon which to develop the Company. Overall, telecommunications markets showed significant growth in the 1980s and, although economic conditions will have an impact, further growth is likely. However, with growing competition and regulatory pressure, BT's future is inevitably more uncertain.

FINANCIAL INFORMATION

PART 6

BT GROUP PROFIT AND LOSS ACCOUNTS

	Year ended 31st March,			Six months ended 30th September, (unaudited)	
	1989 £m	1990 £m	1991 £m	1990 £m	1991 £m
Turnover	11,071	12,315	13,154	6,475	6,632
Operating costs	8,264	9,105	9,623	4,723	4,852
Operating profit	2,807	3,210	3,531	1,752	1,780
Employee profit sharing	30	34	39	—	—
Net interest payable	340	484	417	220	170
Profit before exceptional charge and taxation	2,437	2,692	3,075	1,532	1,610
Exceptional charge for restructuring	—	390	—	—	—
Profit on ordinary activities before taxation	2,437	2,302	3,075	1,532	1,610
Tax on profit on ordinary activities	858	767	995	498	523
Profit on ordinary activities after taxation	1,579	1,535	2,080	1,034	1,087
Minority interests and preference dividends	15	26	—	10	15
Profit attributable to shareholders	1,564	1,509	2,080	1,024	1,072
Dividends	634	720	818	323	351
Retained profit for financial period	930	789	1,262	701	721
Earnings per Share	25.9p	25.0p	34.0p	16.8p	17.4p
Earnings per Share before exceptional charge		29.2p			
Dividends per Share	10.5p	11.8p	13.3p	5.25p	5.7p

BT GROUP SOURCES AND APPLICATIONS OF FUNDS STATEMENTS

	Year ended 31st March,			Six months ended 30th September, (unaudited)	
	1989 £m	1990 £m	1991 £m	1990 £m	1991 £m
Sources of funds					
Profit on ordinary activities before taxation	2,437	2,302	3,075	1,532	1,610
Adjustment for items not involving cash movement	1,537	2,196	1,913	943	1,016
Total generated from operations before taxation	3,974	4,498	4,988	2,475	2,626
Taxation paid	(999)	(863)	(894)	(111)	(120)
Sale of fixed assets	77	91	115	66	28
Sources net of taxation paid	3,052	3,726	4,209	2,430	2,534
Applications of funds					
Expenditure on tangible fixed assets	2,947	3,115	2,758	1,327	1,175
Purchase of subsidiary undertakings and investments	42	1,156	25	19	14
Dividends paid	619	663	769	440	506
Increase (decrease) in working capital	71	(178)	46	(5)	100
Total applications of funds	3,679	4,756	3,598	1,781	1,795
Net cash inflow (outflow) from operations	(627)	(1,030)	611	649	739
Equity and funding movements					
Ordinary shares allotted	49	39	164	150	29
Preference shares redeemed	(250)	—	—	—	—
Minority interests redeemed	—	(12)	(1)	—	—
Loans and other borrowings:					
Funds received	534	912	362	170	4
Repayments	(162)	(259)	(166)	(38)	(26)
Increase (decrease) in net liquid funds	(456)	(350)	970	931	746

BT GROUP BALANCE SHEETS

	31st March,		30th September, (unaudited)	
	1990 £m	1991 £m	1990 £m	1991 £m
Assets employed				
Fixed assets				
Tangible assets	14,781	15,480	15,125	15,590
Investments — note (iii)	722	639	603	646
Total fixed assets	15,503	16,119	15,728	16,236
Current assets				
Stocks	265	229	273	245
Debtors	2,727	2,742	2,732	2,787
Investments	575	1,314	1,296	2,033
Cash at bank and in hand	77	127	139	98
Total current assets	3,644	4,412	4,440	5,163
Creditors: amounts falling due within one year				
Loans and other borrowings	805	614	642	552
Other creditors	4,091	4,183	4,059	3,977
Total creditors: amounts falling due within one year	4,896	4,797	4,701	4,529
Net current assets (liabilities)	(1,252)	(385)	(261)	634
Total assets less current liabilities	14,251	15,734	15,467	16,870
Financed by				
Creditors: amounts falling due after more than one year				
Loans and other borrowings	4,320	4,468	4,345	4,448
Provisions for liabilities and charges — note (iv)	595	602	1,010	1,005
Minority interests	112	92	108	95
Capital and reserves — note (v)				
Called up share capital	1,513	1,537	1,535	1,540
Share premium account	98	238	226	264
Capital redemption reserve	750	750	750	750
Profit and loss account	6,863	8,047	7,493	8,768
Total capital and reserves	9,224	10,572	10,004	11,322
	14,251	15,734	15,467	16,870

NOTES
(i) Sources of financial information

The Group profit and loss accounts and sources and applications of funds statements for the years ended 31st March, 1989, 1990 and 1991 and the Group balance sheets at 31st March, 1990 and 1991, set out above, have been derived from BT's audited accounts for the relevant year. The Group profit and loss accounts and the sources and applications of funds statements for the six month periods ended 30th September, 1990 and 1991 and the Group balance sheets at 30th September, 1990 and 1991 set out above, have been derived from BT's unaudited financial results for the relevant period.

(ii) Significant accounting policies
Basis of preparation

BT's accounts are prepared under the historical cost convention and in accordance with applicable accounting standards. The Group accounts consolidate the results of the Company and all of its subsidiary undertakings. Where the accounts of subsidiary and associated undertakings do not conform with the Group's accounting policies, appropriate adjustments are made on consolidation in order to present the Group accounts on a consistent basis.

Research and development

Expenditure on research and development is written off as incurred.

Goodwill

Goodwill, arising from the purchase of subsidiary and associated undertakings, representing the excess of the purchase consideration over the fair value of the net assets acquired, is written off on acquisition against Group reserves.

Intangible assets

Mobile cellular telephone and broadcasting licences, held in associated undertakings, are stated at historical cost. No amortisation is provided on these assets, but their value is reviewed annually by the Directors and the cost written down if permanent diminution in value has occurred.

Tangible fixed assets

Tangible fixed assets are stated at historical cost less depreciation. Depreciation is provided on tangible fixed assets on a straight line basis from the time they are available for use, so as to write off their costs over their estimated useful lives. Strowger, crossbar and semi-electronic telephone exchange equipment is in the course of being replaced by digital equipment. Strowger and crossbar telephone exchange equipment will be written off by 1995. Semi-electronic telephone exchange equipment will be substantially written off by 2000. The lives assigned to other significant tangible fixed assets are:

Freehold buildings	40 years
Leasehold land and buildings	Unexpired portion of lease or 40 years, whichever is the shorter
Transmission equipment:	
duct	45 to 60 years
cable	10 to 37 years
radio and repeater equipment	4 to 25 years
Digital telephone exchange equipment	10 years
Computers and office equipment	3 to 7 years
Payphones, other network equipment, motor vehicles and cables	3 to 40 years

Fixed asset investments

Investments in associated undertakings are stated in the Group balance sheet at the Group's share of their net assets. The Group's share of profits less losses of associated undertakings is included in the Group profit and loss account.

Pension schemes

The Group operates two defined benefit pension schemes, which are independent of the Group's finances, for the substantial majority of its employees. Actuarial valuations of these schemes are carried out as determined by the trustees at intervals of three years, the rates of contribution payable and the pension cost being determined on the advice of the actuaries, having regard to the results of these valuations. In the intervening years, the actuaries review the continuing appropriateness of the contribution rates.

The cost of providing pensions is charged against profits over employees' working lives with the Group using the projected unit method. Variations needed from this regular cost are allocated over the average remaining service lives of current employees.

(iii) Fixed asset investments

The Group's most significant associated undertaking is McCaw. The Group's 20 per cent. share of the net assets of McCaw, calculated in accordance with Group accounting policies at 31st March, 1991, amounted to £517 million. This value comprised cellular telephone and broadcasting licences of £1,138 million and tangible fixed assets and net current assets of £157 million, from which have to be deducted borrowings and redeemable preference shares of £720 million and £58 million, being the remainder of the provision established by the Group on acquisition to cover the estimated costs of McCaw's commitments and developments in progress.

(iv) Provisions for liabilities and charges

Provisions for liabilities and charges at 31st March, 1991 included those for restructuring of £235 million, deferred taxation of £164 million and pensions of £118 million. Provision for deferred taxation is made only to the extent that timing differences are expected to reverse in the foreseeable future. The full potential liability for deferred taxation at 31st March, 1991 amounted to £2,091 million.

Provisions for liabilities and charges at 30th September, 1991 included the balance of the provision for restructuring of £175 million (£60 million having been utilised in the first half of the 1992 financial year) and net taxation accrued in respect of the first half of the 1992 financial year.

(v) Capital and reserves

Aggregate goodwill of £672 million in respect of acquisitions in the 1991 and earlier financial years has been written off against Group reserves. This amount excluded goodwill attributable to businesses disposed of prior to 31st March, 1991.

(vi) Pension scheme information

Pension costs for the years ended 31st March, 1989, 1990 and 1991 were £311 million, £183 million and £150 million, respectively, which were substantially related to the Group's two defined benefit pension schemes. Pension costs for the first half of the 1992 financial year were £81 million.

Valuations of the Group's two main pension schemes were carried out during 1989. The market value of the schemes' assets at 31st March, 1989, the date of the actuarial valuations, totalled £11,411 million. The value of the assets was sufficient to cover 118 per cent. of the benefits that had accrued to members after allowing for expected future increases in wages and salaries but excluding the effects of employees taking early retirement. The next actuarial valuations will be carried out during 1992.

HM GOVERNMENT'S INTEREST IN BT

BT Shares

HM Government currently owns 47.7 per cent. of the issued BT Shares. The percentage of the issued BT Shares owned by HM Government following the Combined Offers will depend upon the number of Shares sold. If 1,350 million Shares are sold, this percentage would fall to 25.8 per cent. The Shares required to meet Share Bonus entitlements will be made available by HM Government out of the Shares retained by it.

HM Government will not sell or otherwise dispose of any of this residual shareholding before 3rd March, 1993 (except for the purposes of any BT employee share scheme). Any Shares which are agreed to be sold in the Combined Offers and are not duly paid for, or are forfeited for any other reason, may be sold by HM Government at any time. Subject to this undertaking, it is HM Government's policy to sell residual shareholdings in privatised companies as the circumstances of the companies and market conditions permit, and all or any part of the residual shareholding in BT may be disposed of at any time after 2nd March, 1993. Other things being equal, HM Government would prefer to sell its residual shareholding in a way that contributes to wider and deeper share ownership. Before making any such disposal, HM Government will take into account the views of BT's Directors.

In line with its policy since the Company's flotation in 1984, HM Government does not intend to use its rights as an ordinary shareholder to intervene in the commercial decisions of BT. It does not expect to vote its shareholding on resolutions moved at general meetings, although it retains the power to do so.

Special Share

Following the Combined Offers, HM Government will also retain the special rights redeemable preference share of £1 in the Company (the "Special Share") and does not intend to require the Company to redeem the Special Share. The Special Share, which may only be held by HM Government, does not carry any rights to vote at general meetings, but does entitle the holder to receive notice of, attend and speak at such meetings. Certain matters, in particular the alteration of specified Articles of Association of the Company, including the article relating to limitations which prevent a person from owning or having an interest in 15 per cent. or more of BT's voting shares and the article requiring BT's executive Chairman to be a British citizen, require the written consent of the holder of the Special Share. In addition, HM Government, as the holder of the Special Share, is entitled to appoint or nominate two persons as Government Appointed Directors. The Government Appointed Directors have no special powers and their duties, like those of all Directors, are to the Company as a whole. Since 1st October, 1991, BT has had only one Government Appointed Director and HM Government does not currently intend to appoint or nominate a second Government Appointed Director.

Loan Stock

HM Government controls £2,292 million of BT unsecured loan stock repayable at par at various dates between 31st March, 1992 and 31st March, 2006. If HM Government has any proposals for selling or obtaining a listing for any of this loan stock, HM Government will take into account the views of BT's Directors, before any arrangements for this are made.

COMMERCIAL AND OTHER RELATIONS WITH HM GOVERNMENT

HM Government collectively is BT's largest customer, but the provision of services to any one department or agency of HM Government does not comprise a material proportion of BT's turnover. Since 1984, except as described below, the commercial relationship between BT as supplier and HM Government as customer has been on a normal customer and supplier basis.

BT can be required by law to do certain things and to provide certain services for HM Government. The Licence obliges BT to provide certain services for HM Government departments, such as priority repair of certain telephone lines. In addition, the Secretary of State has statutory powers to require BT to take certain actions in the interests of national security, international relations and the detection of crime. It is not HM Government's policy to give details of any arrangements of this kind or of the payments which may at the discretion of the Secretary of State be made in respect of them.

ATTITUDE OF OPPOSITION PARTIES

The policies of opposition parties are the responsibility of the party concerned. Set out below is a summary of recent statements of opposition policy which HM Government believes may be relevant.

The Labour party document "Looking to the Future", published in May 1990, reiterated an earlier statement of Labour policy that, if the public stake in BT's equity remained at 49 per cent., Labour would buy sufficient BT Shares at a fair market price to take that stake to 51 per cent. In its document "Opportunity Britain", published in April 1991, Labour stated that it was strongly opposed to HM Government's plans for selling off the remainder of its stake in the Company. Labour also stated that there must be investment in a national optical fibre network and that Labour would establish a consumer protection commission covering all utilities, which would strengthen and bring together existing regulatory bodies. The commission would be responsible for consumer rights and would monitor the performance of the utilities. It would be given power to institute enquiries and to make recommendations and enforce decisions. In press releases issued in November 1991, Labour stated that consumers' rights must be backed by the consumer protection commission and statutory independent ombudsmen and reaffirmed plans for a Parliamentary select committee on consumer affairs. It was also stated that Labour's policies included consumer representation; improvements in price capping mechanisms; full disclosure of information by utilities; automatic compensation for consumers; an efficiency incentive for utilities, with performance targets; and tougher powers for "regulators to cut prices where there are excess profits".

The Liberal Democrat document "Shaping Tomorrow, Starting Today", published in February 1991, stated that in order to create the right framework for competition action would be taken to break up monopoly providers of services. A Liberal Democrat document published in November 1991 stated that BT should be broken up into a long-distance and international calls company and a number of regional companies.

MARKET PRICE AND DIVIDEND INFORMATION

PART 8

MARKET PRICES

The following table sets out, for the periods indicated, the highest and lowest middle-market quotations for BT Shares, as derived from the Daily Official List of the London Stock Exchange:

	BT Shares	
	Highest	Lowest
	P	P
April-September 1986	278	180xd
October 1986-March 1987	262	178
April-September 1987	334	238
October 1987-March 1988	275	205
April-September 1988	260	228
October 1988-March 1989	293	241
April-September 1989	285	246
October 1989-March 1990	314xd	250
April-September 1990	310½	245
October 1990-March 1991	347½	254½
April-September 1991	399½xd	348½
1st October-20th November, 1991	421½	349½

Note: The past price performance of the Shares is not necessarily indicative of future performance.

The middle-market quotation for BT Shares for 20th November, 1991 was 350½p.

DIVIDENDS

An interim dividend in respect of each financial year is normally declared by BT in November for payment in the following February. The final dividend for each year is normally recommended by BT's Directors in May and paid in September, following approval by BT's shareholders. The following table sets out net dividends paid in respect of BT Shares for each of the past five financial years:

Year ended	Net dividends per BT Share		
	Interim	Final	Total
31st March,	P	P	P
1987	3.35	5.10	8.45
1988	3.75	5.75	9.50
1989	4.25	6.25	10.50
1990	4.65	7.15	11.80
1991	5.25	8.05	13.30

Note: Interim and final dividends paid in the past are not necessarily indicative of future interim and final dividends, or of the future relationship between them.

On 1st November, 1991, BT declared a net interim dividend in respect of the 1992 financial year of 5.7p per Share. Shares sold under the Combined Offers are being sold with the entitlement to receive this dividend, which will be paid on 28th February, 1992, or as soon as possible thereafter, to holders of Shares and Interim Rights registered on 31st January, 1992.

REGULATION, COMPETITION AND PRICES

PART 9

UK REGULATION

The principal legislation governing telecommunication activities in the UK is the Telecommunications Act 1984 ("Telecommunications Act") and the Wireless Telegraphy Act 1949 ("Wireless Telegraphy Act"). Under the Telecommunications Act, the Secretary of State and the Director General have a duty to exercise their functions to secure the provision, so far as reasonably practicable, throughout the UK of telecommunication services which satisfy all reasonable demands for them, and to secure that licensed operators are able to finance the provision of those services. Subject to this duty, they are required, inter alia, to promote the interests of consumers, purchasers and other users in respect of prices, variety and quality of telecommunication services and equipment, to maintain and promote effective competition in these areas and to promote efficiency and economy on the part of commercial operators in the UK telecommunications field.

With limited exceptions, a licence under the Telecommunications Act is required for the running of a telecommunication system in the UK. Responsibility for licensing rests essentially with the Secretary of

State after consulting the Director General, who has broad supervisory powers and duties under the Telecommunications Act and licences issued under it. Accordingly, an important factor in the impact on BT of the regulatory system is how the Director General and the Secretary of State exercise their powers (many of which allow considerable discretion) and perform their duties. In particular, the Director General is responsible for enforcing licence conditions and may make orders requiring compliance, enforceable in the UK Courts, which, if breached, could result in liability for damages to third parties. He is also responsible for monitoring the telecommunications market and investigating complaints about telecommunications-related matters. In addition, the Director General may modify licence conditions with the licensee's agreement. Alternatively, he may refer a matter concerning a licence to the MMC. If the MMC recommends modifying conditions of the licence concerned, the Director General is required to make the modifications which he considers necessary to remedy the adverse effects on the public interest identified by the MMC. In either case, the Telecommunications Act requires public consultation before licence condition modifications can be made. The

Director General has concurrent jurisdiction with the Director General of Fair Trading in exercising certain functions under the Fair Trading Act 1973 and under the Competition Act 1980, but only insofar as they relate to telecommunications.

The Director General, Sir Bryan Carsberg, was originally appointed in 1984 and holds his current appointment until June 1992. He is supported by OFTEL, which has a staff of about 140, including its own technical advisers.

On 8th November, 1991, HM Government published draft legislation, the Competition and Service (Utilities) Bill (the "Bill"), to strengthen the powers of the regulators of the privatised utilities — gas, electricity, water and telecommunications — in relation to standards of customer service. In relation to telecommunications, the Bill will, in particular, amend the Telecommunications Act to give new powers to the Director General, in respect of residential customers and of other customers served by a single exchange line from the telecommunication operator concerned, which will enable him to exercise certain new powers over BT, about customer service and performance, including powers (a) to set guaranteed service standards for individual customers (with the consent of the Secretary of State) and to require compensation to be paid if those standards are not met; (b) to set, monitor and enforce overall performance standards and to ensure that operators publish certain information about performance including their achievement against these standards; and (c) to ensure that operators have satisfactory procedures for handling complaints and that these are publicised. The Bill also enables the Director General, or his appointed arbitrator, or, in some cases, a prescribed person, to determine disputes between operators and their customers over guaranteed service standards and certain terms of supply. The Director General will be required to consult the operator concerned before setting overall performance standards or guaranteed service standards for individuals. The Bill also includes a power for HM Government to make regulations allowing the Director General or his appointed arbitrator to determine disputes over the accuracy of bills. HM Government expects the provisions of the Bill to be applied to BT soon after they are passed into law but not to BT's competitors in the foreseeable future.

The Director General's powers will apply only in relation to a specified range of services (voice telephony, facsimile transmission, directory information services, supply of certain directories, rental of hard-wired telephones, and public call box services) where competition is limited.

The legislation could be amended during its passage through Parliament. However, HM Government has made it clear that it does not intend to make any amendments during the passage of the Bill which would have a direct financial impact on BT's profitability, and it would also resist any amendments tabled by others

which would have this effect. This draft legislation contains proposals which BT believes are likely to have adverse effects on BT, certain of which may be material, but the full extent of these effects cannot be assessed until the legislation is enacted and the powers are exercised from time to time.

In addition, BT is subject to competition law of general application. BT has received a request from the Office of Fair Trading (the "OFT") for information about the business of Yellow Pages. The OFT has indicated that it is considering whether to begin an investigation into that business under the legislation relating to monopolies and anti-competitive practices. BT cannot currently assess the probability that such an investigation will be conducted or the likely effect of any investigation on its business as a whole, but believes that it is unlikely to be material.

OVERSEAS REGULATION

In putting its international strategy into effect, BT must take account of the regulatory regimes in the countries in which it wishes to operate. Generally, most countries' regimes are less liberal than those in the UK and North America (although North America has significant barriers to entry). However, the general trend is towards greater liberalisation. The European Commission is pursuing a policy of progressive liberalisation and harmonisation, but, in general, current proposals would still leave the rest of the European Community (the "EC") well short of the degree of liberalisation already achieved in the UK.

The FCC is reviewing the arrangements under which international accounting rates are set, with the objective of achieving a substantial reduction in the rates paid by US operators. BT has already agreed a phased programme of accounting rate reductions with US operators and does not expect to be materially affected by the FCC's initiative. The European Commission is also examining the arrangements governing prices and accounting rates for international telephone calls under its powers to investigate potential infringements of the EC's competition rules. The Commission's investigations are at an early stage, but BT does not currently expect the eventual outcome to have a material impact on BT's business as a whole.

THE BT LICENCE

BT operates in the UK under a number of licences granted under the Telecommunications Act and the Wireless Telegraphy Act, the most important of which is the Licence. The Licence is revocable by ten years' notice given not before 22nd June, 1999 and may also be revoked at any time on various grounds, including non-compliance with an enforcement order.

The Company is required by the Licence to provide throughout nearly all of the UK telecommunication

services, including rural and international services, which satisfy all reasonable demands to the extent that it is practicable to provide such services. The Company must also provide certain public services and facilities. The Company must comply with a variety of fair trading obligations, such as a prohibition on showing undue preference or discrimination in the provision of certain services or unfairly favouring any part of its own business as against competitors; a prohibition on the unfair cross-subsidy of certain businesses of the Company; and a prohibition on the Company's ability to impose certain linked sales on customers and certain exclusive dealing arrangements on suppliers.

The Licence contains price control formulae restricting the extent to which the Company can increase, or requiring it to reduce, the prices of many of its services and a number of provisions to ensure that the Company does not abuse its market position. The Licence also contains provisions enabling the Director General to monitor the Company's activities, including requirements for BT to supply him with information he requests and to maintain segregated accounts for certain parts of its business. Such accounts are required to enable the Director General to satisfy himself that these businesses are not being unfairly cross-subsidised by BT's other activities, and the Director General has the power to direct BT to take the steps necessary to remedy any unfair cross-subsidy. The Director General is currently investigating whether there is any unfair cross-subsidy of BT's apparatus supply business (broadly the supply of customer premises equipment) and has stated his belief that such a cross-subsidy exists and that he is minded to direct BT to take certain steps for the purpose of remedying the situation. BT cannot currently assess the effect such a direction may have on its business as a whole, but believes it is unlikely to be material.

The Company must permit the interconnection to its system of certain other systems appropriately licensed for the provision of telecommunication services to the public. Interconnection agreements are, in the first instance, a matter for negotiation between the companies concerned, but the Director General may determine the terms and conditions of any agreement, on the application of either party, where the parties fail to reach agreement. In addition, the Company has to connect to its system any other system run under a licence which authorises connection to the Company's system and any equipment which meets specified independent approval standards.

RADIO SPECTRUM LICENCES

BT's national and international telecommunication networks are dependent on licences issued under the Wireless Telegraphy Act covering the use of the radio spectrum, including microwave and satellite transmissions. A comprehensive licence covers all the Company's fixed terrestrial and satellite links and also

its maritime uses of radio. Its radiopaging services and Cellnet's cellular network are licensed separately. Licences may be revoked or varied at any time by the Secretary of State, who has delegated exclusive management control for some blocks of radio spectrum to the Company. HM Government has been conducting a detailed review of radio spectrum management and licensing for several years and has stated that BT will lose, over a period of up to ten years, management control of a substantial fraction of its blocks suitable for longer distance fixed-links. Very recently, HM Government has stated that ultimately, with limited and specific exceptions, BT will lose management control of all its blocks. This process, the financial effects of which BT cannot currently assess, will reduce both the speed and flexibility with which BT provides new or modified radio links within its network and also direct to customers.

COMPETITION PRIOR TO THE REVIEW

Since 1981, HM Government has followed a policy of seeking to introduce competition into the building and operation of public telecommunication networks in the UK, the provision of services over those networks, and the supply of equipment for connection to those networks. As regards the supply of telecommunication equipment, entry to that market is now unrestricted and the supply of equipment to customers has become highly competitive.

In the services and networks sectors, BT faces direct competition in the provision of voice telephony and data services, particularly in serving business customers. Under the duopoly policy in place since 1983, the major competitor in this area has been Mercury, which launched its competing switched telephone service in May 1986, since when increasing numbers of customers in the UK have had a choice of telephone companies for national and international calls and, to a lesser extent, local calls. Large users are often served by direct Mercury lines, whereas smaller businesses and residential users typically access the Mercury network indirectly via BT's network. Mercury competes particularly in the provision to call-intensive customers of international and long-distance calls, the most profitable parts of the UK telecommunications market.

With respect to mobile telecommunication services in the UK, BT has a majority share in Cellnet, although it was excluded from participating in the three consortia licensed in July 1991 by HM Government to operate two-way personal communication networks ("PCNs"). PCNs are intended to compete with existing mobile networks and with fixed networks (including BT's local network) and are expected to begin service not earlier than 1992. Under its cellular telecommunication licence, Cellnet will, however, be able to provide services similar to those expected to be provided by PCN operators.

THE REVIEW

During 1990 and the early part of 1991, HM Government and the Director General conducted a wide-ranging review of the regulation of telecommunication services in the UK. In March 1991, HM Government published a White Paper policy statement entitled "Competition and Choice: Telecommunications Policy for the 1990s" setting forth its new policies and proposals for the regulation of telecommunication services in the UK. Implementation of many of the new policies described in the White Paper required changes to existing licences, including the Company's Licence and Mercury's principal operating licence. Following public consultation on proposed licence condition amendments, originally published in March 1991, revised amendments to the conditions of the Licence were made in September 1991. The principal changes in the regulatory environment arising from the Review are described below.

End of the duopoly policy

HM Government will consider applications from any number of applicants for licences to offer public fixed-link telecommunication services, both UK local and long-distance, in accordance with published guidelines, with a general presumption in favour of applications being granted. A number of applications for new licences have been made already and the Company anticipates that further applications will be made for licences to provide both local and national services. HM Government has also decided to end the duopoly policy in respect of international operators, but it has announced that it is unlikely to grant any new licences in the short term.

Price controls and rate of return

The price control formula covering BT's main services has been amended and extended to cover international calls. In addition, international private circuits have been included in the separate price control arrangements previously agreed with the Director General for UK private circuits.

The Director General indicated on 10th July, 1991 that the actual rate of return earned by BT on investment, for the part of the business then covered by the price controls, was well within the range that he regarded as acceptable when he established the price control in 1988/89; and that if BT's profits were a little higher than expected overall, that resulted from international calls which were not then included in the price control. (They are now controlled under the RPI minus 6.25 price cap. See "Prices" below.)

The Director General has confirmed that this statement was an accurate reflection of his views on 10th July, 1991.

The Director General has also confirmed that he has not conducted any investigations on these matters since

then, but, having regard to the information currently available to him, nothing has come to his attention which would cause him to consider the opinion he expressed in July in relation to the 1988/89 price control to be inappropriate. In the context of the review which the Director General intends to commence early in 1992 in respect of the price control to operate after July 1993, he expects to consult fully and openly on these matters and will take proper account of the arguments raised and the impact of the recently agreed RPI minus 6.25 price control. The Director General has stated that no implications about this review should be drawn from the foregoing confirmations. See "Statement by the Director General" below.

Private circuits

The use of UK private circuits and exchange lines provided by any operator, including BT and Mercury, has been unrestricted since 1989. HM Government has more recently removed many of the remaining restrictions on the resale of international private circuits. The restrictions on international simple resale (resale where messages are conveyed over the public switched network at both ends of an international private circuit) will only be lifted between the UK and those countries whose regulatory regimes allow equivalent freedoms. BT expects that the removal of restrictions on the use of UK and, potentially, international private circuits, and the self-provision of circuits permitted as a result of the Review, will result in some diversion of demand and turnover from its public switched network.

Flexible pricing policies

The amendments to the Licence have clarified the conditions under which the Company may introduce flexible pricing packages, whereby it can charge differential prices to customers, including volume discounts. The introduction of the defined flexibility for pricing packages will be permitted in stages over a period of transition between 1991 and 1995.

Rebalancing

The Director General has reaffirmed the desirability of continuing price rebalancing (increasing exchange line rentals and connection charges while decreasing call prices, better to reflect the costs of providing these services). The Director General has confirmed that his inclination is to support continued rebalancing after July 1993 (when the current price controls on BT are due to expire) as part of new price control arrangements, unless conditions in the industry have changed. He has also confirmed that he expects that a limitation on increases in the median residential customer's bill to increases in the RPI will be the main constraint on rebalancing after July 1993. However, he expects to consult fully and openly on these issues during the coming price control review and will take proper account of the arguments put to him. See "Statement by the Director General" below.

Interconnection charges

The charges currently payable by Mercury to BT cover the full cost of conveying calls, but only reflect to a limited extent the losses incurred by BT in providing exchange lines. The Director General has introduced changes to the interconnection conditions in BT's Licence that may require Mercury and other operators to pay a greater contribution towards those losses, which would be payable for as long as regulatory restrictions on rebalancing exist. However, the Director General may waive all or part of them in certain circumstances following an application for a determination by either party, taking account of a number of market-related factors. In particular, in order to enable fixed network operators competing with BT to establish or maintain a market presence, such waivers may, until 30th June, 1997, be applied to operators for the first 10 per cent. of their market, until they attain a 25 per cent. share of that market, at which point they must pay to BT full access deficit contributions in respect of turnover from their entire market share. If BT's share falls to 85 per cent., then full contributions would be payable in all cases by operators on any incremental market share loss by BT. Full contributions will also be required on all traffic arising from equal access. In addition to the rules for fixed network competitors, the Director General may waive all or part of the contributions otherwise payable by cellular (including PCN) operators.

Equal access

The Director General has indicated that, if requested, he will consider the case for introducing as soon as possible some form of "equal access", allowing customers to choose between long-distance operators with equal ease. The timetable for full equal access is uncertain. The Licence now enables the Director General to determine that equal access be provided after 1992, subject to a cost benefit study indicating that the likely gains to telecommunication customers outweigh the costs likely to be incurred and if, in his opinion, sufficient arrangements have been made in relation to the Company's prices to achieve fair competition. Such a direction cannot be made before 1st January, 1993. The Company believes that equal access will lead to diversion of some call volume, and hence of turnover, from its long-distance and international networks.

Cable television and mobile services

As a result of the Review, UK broadband cable television operators, several of which have US and Canadian telephone companies (with significant telecommunications experience and financial resources) as substantial investors, will be allowed to offer voice telephony services independently of the Company or Mercury and to provide them on an integrated basis with their entertainment services. They will also be allowed greater freedom to link adjacent franchises to provide telecommunication services over a wider area. BT's participation in the cable television market will remain

subject to a number of restrictions. The Broadcasting Act 1990 introduced a new system for the award by the Independent Television Commission (the "ITC") of cable television franchises by tender. ITC policy for the foreseeable future is to grant only one franchise per geographic area. The Company will be allowed to apply for franchises only through a subsidiary or associate until 31st March, 1994. Thereafter, it will be allowed to apply for such franchises in its own right. HM Government intends not to allow BT or other national public telecommunications operators to provide television delivery services nationally in their own right and this policy will not be reviewed until at least 2001. The Company is prevented by the Licence from conveying television programme services to homes and HM Government does not intend to remove this restriction until 2001, though this may be reviewed in 1998. The Company may, however, convey television programme services within its network and to business customers. It is also possible for anyone, including the Company, to act as agent for any network operator, including cable network operators, in conveying television programme services to homes.

In addition, the Company and other fixed-link operators will still not be allowed to provide mobile services. HM Government will consider applications from mobile operators (including Cellnet) to be allowed to offer fixed services using their radio telecommunication networks. The Company expects these changes to give a competitive advantage to cable television operators and to mobile operators.

PRICES

Under the Licence, the Company is subject to general restrictions on the extent to which it can increase, or requiring it to reduce, the prices of those services to UK customers which account for the majority of its turnover, but is not prevented from benefiting from improvements in efficiency by any limitation to a specific rate of return on capital nor required to obtain the prior approval of any regulatory authority for specific price changes. Since being imposed under the Licence in 1984, the price controls have been periodically tightened over the years by lowering the percentage amount of any permitted increases and by expanding the range of services covered by the controls.

These price controls, which are designed to protect the customers for the services covered, allow room for flexibility as to individual price changes by the Company within the overall limit set by the controls, subject to the pressures of competition. No competing operator, including Mercury, is subject to price controls.

Each price control is based on a formula calculated by reference to the RPI. The weighted average increase in prices charged for the services covered by the controls, in each twelve-month period beginning 1st August, cannot exceed a fixed percentage below the change in

RPI for the twelve months to the preceding 30th June. If the RPI increases by less than the fixed percentage, or falls, the Company must lower the weighted average prices for those services accordingly. In calculating the increase (or reduction) to these prices, each item is weighted in proportion to the contribution it made to the Company's turnover from services covered by the respective price controls in the previous financial year. Any permitted increase foregone in one year may generally be carried forward for up to two years. The Company is permitted to use any such foregone increase when establishing its prices for future years, but may choose not to do so.

Public switched telephone services

Following negotiations between the Company and the Director General, the price control formula covering public switched telephone services (exchange line rentals and UK local and long-distance calls) was set at RPI minus 4.5 for the four years from 1st August, 1989 to 31st July, 1993. No carry forward of permitted increases foregone under the earlier RPI minus 3 control was allowed.

As a result of the Review, a replacement price control, with both a greater fixed percentage below the change in RPI and an expansion in the range of services covered, came into operation with effect from 1st August, 1991 and will remain in force until 31st July, 1993. In addition to exchange line rentals and UK local and long-distance calls, the new formula also covers international calls originating in the UK which are billed by the Company, and is set at RPI minus 6.25 during each of the two years beginning 1st August, 1991 and 1992. The Company estimates that the public switched telephone services formula in effect during the 1991 financial year applied to approximately 48 per cent. of BT's total turnover and that, if the new formula had been in effect during the 1991 financial year, it would have applied to approximately 57 per cent. of BT's total turnover.

Rebalancing

In addition to the controls provided by the Licence which cover the weighted average prices of the controlled services, in 1984 the Company gave a voluntary assurance to limit annual increases in residential exchange line rentals to RPI plus 2 for the five years from 1st August, 1984 to 31st July, 1989. The Company expanded that assurance by adding rentals for business lines and connection charges for business and residential lines from 1st August, 1989 until 31st July, 1993 at the same RPI plus 2 level. As a result of the Review, the RPI plus 2 arrangement has been modified so that the Company will be able to increase line rentals and connection charges for businesses with more than one line by up to RPI plus 5 each year.

The Company also accepted the constraint that the annual rate of increase of the median residential customer's bill, based on a representative pattern of usage, will not exceed the annual increase in the RPI.

The RPI plus 2, RPI plus 5 and median residential customer's bill constraints are now incorporated into the Licence as part of the preconditions for pricing packages being deemed to be not unduly preferential or discriminatory.

Private circuits

Since 1st August, 1989, a separate price control, fixed at RPI minus 0, has applied to prices for UK private circuits. As a result of the Review, prices for international private circuits became subject to this control on 1st August, 1991, with the control remaining in force at least until 31st July, 1993. The Company estimates that the UK private circuit formula applied to approximately 6 per cent. of BT's total turnover in the 1991 financial year and that, if international private circuits had been subject to the control during the 1991 financial year, the control would have applied to a slightly increased proportion of BT's total turnover.

1991 price changes

In August 1991, the Company announced price changes which took effect in September 1991. The main changes included increases averaging 7.8 per cent. on business and residential exchange line rentals and connection charges and up to 5 per cent. on all UK local and cheap rate long-distance calls. Daytime UK long-distance call charges remained unchanged. International call prices were reduced by a turnover weighted average of 9.6 per cent. In addition to these main changes, the Company also introduced a range of pricing packages ("Customer Options") which allow business customers a range of discounts on standard dialled call charges. A new scheme ("Supportline") for low-user residential customers was also introduced. Business and residential customers not benefiting from Customer Options or Supportline receive standard service terms, which now include a reducing dialled call unit fee where call bills exceed £100 per quarter. The effect of these changes was an overall reduction in the prices of the Company's main services of approximately 1 per cent. and an increase of 4.9 per cent. in the median residential customer's bill. In November 1991, BT announced that the prices for UK private circuits and international private circuits terminating in the UK will be increased by a turnover weighted average of 7.4 per cent. in December 1991.

Future price controls

The current price control arrangements (including those made as a result of the Review) will expire on 31st July, 1993. Price controls after that date would require Licence condition modifications. These can either be agreed between BT and the Director General or imposed on BT following a Licence modification reference to the MMC by him. Under his statutory obligations, the Director General is required to consider views and comments on the proposed modifications

before making Licence condition modifications, either by agreement or after an MMC reference.

As a basis for considering new price controls, the Director General is planning to issue a consultative document early in 1992, inviting views from all interested parties. A similar consultative procedure was

followed when the main price control was reviewed in 1988. The Director General has stated that he considers that this timetable will allow sufficient time for him to consider how he should exercise his statutory functions, prior to the establishment of any new price controls by July 1993. The Director General is obliged to maintain unfettered discretion throughout this process.

The Company's performance against the public switched telephone services formula since August 1985 has been as follows:

	1985	1986	Year commencing 1st August,		1990	1991
			1987	1988	1989	
% RPI movement for the relevant period ⁽¹⁾	7.0	2.5	4.2	4.6	8.3	5.8
RPI formula in effect	-3.0	-3.0	-3.0	-3.0	-4.5	-6.25
% permitted increase (required reduction) in prices ⁽²⁾	4.1	(0.1)	1.3	2.8	3.8	(0.2)
% actual increase (reduction) in prices overall	3.7	(0.3)	—	—	3.5	(1.0) ⁽³⁾

(1) Annual increase in RPI to previous June.

(2) After permitted carry forward of any unused allowance from previous years.

(3) Reflects price changes in September 1991 only.

STATEMENT BY THE DIRECTOR GENERAL

Set out below is the text of a statement given to HM Treasury by the Director General on 13th November, 1991 regarding the International Offering Circular published in connection with the International Tender Offer. The Director General has confirmed that this statement may be included in this document in the context of this Part 9.

"In connection with the International Offering Circular to be dated 21 November 1991, I confirm that Part 9 of that document represents an appropriate summary of the regulatory environment for telecommunications in the UK so far as that environment concerns OFTEL including the statements and actions ascribed to me.

It may be helpful if I clarify the position in relation to the price control arrangements. In setting the price controls in 1988/89 (and revising them to include international calls in 1991), I took the view that the broad aim of price control of the RPI minus X form should be to set "X" at a level which gives BT an expectation of covering the cost of capital employed for the services subject to control, and takes account of the risk for BT while providing demanding targets for improvements in customer service and increased efficiency.

I took the view that a price cap should be set for, say, four or five years and normally left unchanged during that time so that the regulatee has the incentive to improve efficiency in order to earn higher profits.

Where, at the start of a price-cap period, profits are higher or lower than normal for the risk and capital employed of the company concerned (because some prices have not been controlled in the past, or because performance has been better or worse than expected) the RPI minus X approach should often (depending on the exact circumstances) be used to produce movement towards normal profits over a few years because that is appropriate for incentive reasons: for example, it may continue the benefits to the company of high efficiency. It should also be recognised that, in interpreting company results, consideration has to be given as to whether costs have been assessed on a historic or current cost basis.

The current price controls terminate in July 1993. In accordance with the procedures followed when the main price control was reviewed in 1988, I intend issuing a consultative document early in 1992, setting out the options for what should replace the current controls. In approaching the next price review, I will consider carefully the arguments put to me during the full and open consultation process which I intend to initiate before any new price controls are set. There can be no question of my reaching any final conclusions or prejudging any of the many issues involved until the consultative process has been undertaken. Accordingly, in considering the question of new price controls, it should not be assumed that I shall necessarily be employing the methodology which I employed for the 1988/9 price reviews or that I shall reach the same or similar conclusions on similar issues."

ADDITIONAL INFORMATION

1 SHARE CAPITAL AND SHARE SCHEMES

The authorised and issued share capital of the Company is as follows:

Authorised £		Issued and fully paid £
750,000,000	11.95% (including tax credit) redeemable cumulative preference shares of £1 each ("Preference Shares")	—
	1 Special Share	1
1,875,000,000	Shares	1,539,626,928
<u>2,625,000,001</u>		<u>1,539,626,929</u>

The principal listing of the Shares is on the London Stock Exchange. The Shares are also listed on the Tokyo Stock Exchange. American Depositary Shares ("ADSs"), each representing ten Shares, have been issued by Morgan Guaranty Trust Company of New York, as Depositary for the American Depositary Receipts ("ADRs") evidencing the ADSs, and are listed on the New York and Toronto Stock Exchanges. All the Preference Shares were held by HM Government and the last tranche of Preference Shares in issue was redeemed at par on 10th May, 1988.

Pursuant to a resolution passed at the Annual General Meeting of the Company in 1991, the Directors of BT are generally authorised for the purposes of section 80 of the Companies Act 1985 to allot Shares or securities convertible into Shares, or to grant options to subscribe for Shares, having an aggregate nominal value of £336,510,000. This authority expires on the date of the Annual General Meeting of the Company to be held in 1996 or, if earlier, 17th July, 1996. The provisions of section 89(1) of the Companies Act 1985, to the extent that they are not disapplied, confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash. The provisions of section 89(1) are at present generally disapplied, pursuant to a resolution passed at the Annual General Meeting of the Company in 1991, in connection with rights issues or if the equity securities to be allotted for cash, when taken together with any other equity securities allotted for cash during the period of the disapplication (other than so allotted under a rights issue), do not in aggregate exceed a nominal value of £76,823,000. The disapplication expires on the date of the Annual General Meeting of the Company to be held in 1992.

The Company has established a share ownership scheme used for employee profit sharing (the "BT Employee Share Ownership Scheme"), a share option scheme for its employees and those of participating subsidiary companies (the "BT Employee Sharesave Scheme") and a further share option scheme for selected Group employees (the "BT Share Option Scheme"). The BT Employee Sharesave Scheme is savings related and the share options are normally exercisable on completion of a five-year Save-As-You-Earn contract. Under the BT Share Option Scheme, the share options are normally exercisable between the third and tenth anniversaries of the date of grant. There are options outstanding under the two share option schemes to subscribe approximately 217 million Shares, exercisable prior to 2001 at prices between 187p and 400p per Share.

Since 31st March, 1988, BT has allotted approximately 145.7 million Shares under the BT Employee Share Ownership Scheme and pursuant to exercises of options granted under BT's share option schemes.

2 RIGHTS ATTACHING TO SHARES

BT Shares

Dividends: Subject to the rights of holders of any issued Preference Shares and of future shares having priority, the holders of Shares are entitled to the profits of the Company available for dividend and resolved to be distributed.

Return of capital: On a winding-up, the balance of the assets available for distribution, after deduction of any provision made under section 187 of the Insolvency Act 1986 and section 719 of the Companies Act 1985 and repayment of the amounts paid up on the Special Share and any issued Preference Shares (together with any arrears of dividend thereon) and subject to any special rights attaching to any other class of shares, shall be applied in repaying to the holders of Shares the amounts paid up on such Shares and any surplus assets will belong to the holders of Shares according to the respective numbers of Shares held by them.

Voting: Subject to the provisions summarised in "Restrictions on voting" below, on a show of hands every holder of Shares who is present in person at any general meeting shall have one vote and on a poll every such holder who is present in person or by proxy shall have one vote for every 25p in nominal amount of the Shares of which he is the holder.

Restrictions on voting: No person shall, unless the Board otherwise determines, be entitled to attend or vote at any general meeting or to exercise any other right conferred by being a shareholder at or in relation to meetings of the Company in respect of any Shares held by him if (i) he or any person appearing to be, directly or indirectly, interested in those Shares has been duly served with a notice under section 212 of the Companies Act 1985 (which confers upon public companies the power to require information with respect to interests in their voting shares) and he or any such person is in default in supplying to the Company the information thereby requested within the time specified in such notice for compliance therewith, which must be at least 28 days from the date of the notice, and the Board resolves that those Shares be disqualified until the notice is complied with or, if earlier, until the Board resolves to remove the disqualification or (ii) the circumstances described under "Limitation on shareholdings" below apply.

Special Share

The Special Share, which may only be held by HM Government, does not carry any rights to vote at general meetings, but does entitle the holder to receive notice of, attend and speak at such meetings. Certain matters, in particular the alteration of specified Articles of Association of the Company, including the articles relating to limitations which prevent a person from owning or having an interest in 15 per cent. or more of the Company's voting shares and to the requirement that the executive Chairman is a British citizen, require the written consent of the holder of the Special Share. The issue of any shares with voting rights not identical to those of the Shares also requires the consent of the holder of the Special

Share, subject to an exception for shares which do not constitute equity share capital and which, when aggregated with all other such shares, carry the right to cast less than 15 per cent. of the maximum number of votes capable of being cast on a poll at any general meeting. In addition, as the holder of the Special Share, HM Government is also entitled to appoint or nominate not more than two persons to be Directors. These Directors are permitted by BT's Articles of Association to vote on issues relating, inter alia, to contracts to which the Crown is party or in which the Crown is interested.

Limitation on shareholdings

The limitation on interests in voting shares of the Company is described briefly below:

For the purpose of these provisions, the expression "interest" is widely defined; it generally follows but is more extensive than the definition used in deciding whether a notification to the Company would be required under Part VI of the Companies Act 1985 (which contains requirements for the notification of interests in shares in public limited companies) and thus includes the interest of a holder of Interim Rights under the Combined Offers. Any person who has an interest in voting shares of 3 per cent. or more is required to notify the Company of that interest and is otherwise obliged to give notices in relation to interests in voting shares as currently provided in Part VI of the Companies Act 1985.

If any person has, or appears to the Board to have or (if the Board is unable to ascertain whether such a person has an interest in those shares and so resolves) is deemed to have, an interest in shares which carry 15 per cent. or more of the total votes attaching to relevant share capital (as that expression is defined in the Companies Act 1981) the Board shall serve a written notice on all persons (other than certain persons referred to below) who appear to it to have interests in and, if different, on the registered holder(s) of the shares concerned. Such notice will set out the restrictions referred to below and will call for the interest concerned to be reduced to less than 15 per cent. by sale or other disposal of shares within 21 days of the service of the notice on the registered holder(s) (or such longer period as the Board considers reasonable). No transfer of the shares comprised in the interest may be made except for the purpose of reducing such interest to less than 15 per cent.

If such a notice is served and is not complied with in all respects to the satisfaction of the Board and has not been withdrawn, the Board shall itself effect such a disposal on such terms as it may determine, based upon advice obtained by it for the purpose.

A registered holder on whom a notice referred to above has been served is not entitled in respect of the share or shares comprised in the interest, until such notice has been withdrawn or complied with to the satisfaction of the Board, to attend or vote at any general meeting of the Company or meeting of the holders of voting shares and such rights will vest in the chairman of any such meeting who may act entirely at his discretion.

The Board is not required to serve notice on any person if it does not know either his identity or his address. The absence of serving such a notice in such case and any accidental error in or failure to give any notice to any person upon whom notice is required to be served will not prevent the implementation of or invalidate any procedure under the relevant Article. Any resolution or determination of, or decision or exercise of any

discretion or power by, the Board shall be conclusive and binding on all persons concerned and shall not be open to challenge.

Any person acting on behalf of the Crown, and certain other specified shareholders, are not subject to these restrictions.

3 INDEBTEDNESS

The net indebtedness of the Group at 30th September, 1991 was as follows:

	£m
Due after more than one year	
Bonds, debentures and loan notes	1,841
Loan stock - see note	2,186
Bank loans and overdrafts	303
Other borrowings	118
	<u>4,448</u>
Due within one year	
Loan stock - see note	106
Bank loans and overdrafts	140
Other borrowings	306
	<u>552</u>
Total indebtedness	<u>5,000</u>
Cash and current asset investments	2,131
Net indebtedness	<u>2,869</u>

Note: The loan stock is controlled by HM Government. In 1984, the Company issued 22 separate series of unsecured loan stock aggregating £2,750,000,000 in principal amount, redeemable from 1985 to 2006 and carrying interest from 12% per cent. to 12% per cent. per annum.

Apart from obligations under finance leases of £42 million, all borrowings are unsecured. Loans to Group companies supported by guarantees of other Group companies are treated as unsecured.

Foreign currency amounts have been translated into sterling at exchange rates prevailing on 30th September, 1991. The majority of the Group's foreign currency borrowings, which totalled £1,375 million at 30th September, 1991, is used to finance its UK operations. Currency swaps and foreign exchange contracts have been entered into to minimise the foreign currency exposure on almost all of the borrowings used to finance BT's UK operations. Other foreign currency borrowings are used to finance the Group's overseas investments in order to reduce the currency exposure on the underlying assets. As a result of these policies, the Group's exposure to foreign currency arises primarily on the residual currency exposure on overseas investments and on any imbalances between the value of outgoing and incoming international calls with overseas telecommunication operators.

Warrants are outstanding entitling the holders to subscribe in 1999 for US dollar 8.765 per cent. guaranteed bonds at par, repayable in 2009, to be issued by BT with a total principal value equivalent to £114 million.

Save as disclosed above, and apart from intra-group liabilities, the Group did not, at 30th September, 1991, have any loan capital (including term loans) outstanding or created

but unissued, any mortgages, charges or any other borrowings or indebtedness in the nature of borrowing, or acceptance credits, hire purchase commitments, obligations under finance leases, guarantees or other material contingent liabilities.

At 30th September, 1991, the Group had £485 million of undrawn borrowing facilities which were covered by formal commitments and the Company had issued guarantees in respect of borrowings by its subsidiary companies, under which £1,507 million was outstanding.

There has been no material change in the net indebtedness of the Group since 30th September, 1991.

4 WORKING CAPITAL

The Company considers that, taking account of available facilities, the Group has sufficient working capital for its present requirements.

5 DIRECTORS' INTERESTS

The beneficial interests of the Directors in BT Shares, as recorded in the register maintained pursuant to section 325 of the Companies Act 1985, are shown in the table below, together with the options over Shares held by each of them through BT's share option schemes:

Directors	Shares	Options over Shares
Iain D. T. Vallance	16,978	533,932
Paul G. Bosonnet	1,760	—
Michael Bett	10,257	242,944
Michael L. Hefher	12,000	400,000
Malcolm Argenti	13,106	202,623
Sir Eric Ash	1,680	—
Anthony J. Booth	10,129	345,949
Geoffrey J. Mulcahy	2,880	—
Yve M. Newbold	—	—
Barry D. Romeril	12,215	233,627
Dr Alan W. Rudge	12,220	191,733
Sir David Scholey	6,250	—
The Rt. Hon. Norman Tebbit	2,000	—

For the year ended 31st March, 1991, the Directors serving during the year received from the Company aggregate emoluments (including pension contributions) of £2,599,288.

All of the executive Directors have entered into service agreements with the Company. All of the executive Directors' current service agreements expire in August 1994 but contain provisions for extension which enable the Company (with the agreement of the Director concerned) to replace the unexpired period of the service agreement with a new three-year period of service. Subject to the requirement that the agreement will terminate when the Director reaches the age of 60, there is no limit to the number of such extensions which can be effected.

All of the non-executive Directors have three-year contracts of appointment, expiring at various dates.

Mr. Hefher is a non-executive director of Lloyds Bank Plc, which is acting as a receiving bank in respect of the UK Public Offer, is acting as one of the Share Shops in connection with the UK Public Offer, has been appointed as Agent Bank under the Instalment Agreement and is the Company's

Registrar. Lloyds Bank Plc will receive fees and commissions for these services.

Sir David Scholey is Chairman of S.G. Warburg Group plc, subsidiaries of which have been appointed to advise HM Treasury on the sale of Shares under the Combined Offers, to act as Global Co-ordinator and as Regional Lead Manager for the UK and the Rest of the World regional syndicates, as well as participating in each of the overseas syndicates, and which will receive fees and commissions for their services.

Mr. Bosonnet is a non-executive director of Mercury Asset Management Group plc, a subsidiary of S.G. Warburg Group plc.

6 SUMMARY OF OFFER AGREEMENTS

The detail given in respect of each of the agreements referred to in this paragraph is a brief summary only of the terms of such agreement, does not purport to be complete and is qualified in its entirety by the full terms of such agreement.

(a) An agreement (the "Orderly Marketing Agreement") dated 13th November, 1991 between HM Treasury (1), ABN AMRO Bank N.V. and others (the "Benelux Managers") (2), Wood Gundy Inc. and others (the "Canadian Managers") (3), Banque Indosuez and others (the "French Managers") (4), Dresdner Bank Aktiengesellschaft and others (the "German Managers") (5), Mediobanca-Banca di Credito Finanziario S.p.A. and others (the "Italian Managers") (6), Daiwa Securities Co. Ltd. and others (the "Japanese Managers") (7), Credit Suisse First Boston Limited and others (the "Swiss Managers") (8), S.G. Warburg Securities and others (the "UK Managers") (9), Goldman, Sachs & Co. and others (the "US Managers") (10), S.G. Warburg Securities and others (the "Rest of the World Managers") (11) and S.G. Warburg Securities in its capacity as Global Co-ordinator (12) which provides for the regulation of the orderly marketing of the Shares under the Combined Offers. It provides, inter alia, that the Managers for each region as defined in the agreement will (subject to limited exceptions) confine their offers and sales of Shares to persons located within their respective regions. The restrictions upon the making of such offers and sales of Shares terminate upon the earliest of (i) a date and time agreed as such by HM Treasury and the Global Co-ordinator; (ii) the time of commencement of dealings in Interim Rights on the London Stock Exchange; and (iii) 8.30 a.m. on 9th January, 1992.

(b) An agreement (the "International Tender Offer Agreement") dated 21st November, 1991 between HM Treasury (1), the Benelux Managers (2), the Canadian Managers (3), the French Managers (4), the German Managers (5), the Italian Managers (6), the Japanese Managers (7), the Swiss Managers (8), the UK Managers (9), the US Managers (10), the Rest of the World Managers (11), the Global Co-ordinator (12) and S.G. Warburg & Co. Ltd. ("SGW") (13) which provides for the conduct of the International Tender Offer. Pursuant to this agreement:—

- (i) each Manager has undertaken with HM Treasury to use all reasonable endeavours to procure indications of interest in purchasing Shares and may submit a bid or bids reflecting those indications of interest in the International Tender Offer;
- (ii) the commitment of any Manager to procure purchasers for, or failing which to purchase, any Shares will be evidenced solely by execution and delivery on behalf of that Manager of the purchase memorandum

contemplated by the agreement (the "Purchase Memorandum") which is expected to take place on 9th December, 1991;

- (iii) execution of the Purchase Memorandum will constitute the agreement by the Manager with HM Treasury and the Global Co-ordinator to procure purchasers for or failing which to purchase, at the International Tender Offer Price, the number of Shares in the Purchase Memorandum on the terms and conditions referred to in the agreement and on the terms of the Purchase Memorandum and the agreement and, on such terms, to pay for the Shares. The obligations of the Managers under the Purchase Memorandum are not conditional on dealings commencing in the Interim Rights;
- (iv) each Manager has agreed that, if it becomes aware of any details relating to the allocation of Shares (as set forth or referred to in the Purchase Memorandum) to any person other than itself, or the respective numbers of Shares which are sold by HM Treasury or over-allotted and comprised in any such allocation (including the basis of allocation) prior to the Stabilisation Period End Date (being the date which is the earlier of (1) the thirtieth day after the day on which the Purchase Memorandum is executed and delivered and (2) the date agreed between HM Treasury and the Global Co-ordinator as the last date on which any stabilisation transaction may be effected by the Global Co-ordinator or its agents in accordance with the International Tender Offer Agreement), it will not disclose any such details prior to such date;
- (v) HM Treasury has agreed to pay (1) to the Regional Lead Manager and co-lead Managers in each regional syndicate management commissions equal to 0.1 per cent. of the aggregate of that syndicate's management percentages of the Management Commission Base Amount and (2) to the Managers in each syndicate management commissions equal to 0.3 per cent. of that Manager's management percentage of the Management Commission Base Amount (together in each case with any UK VAT thereon). For this purpose, the Management Commission Base Amount is the value at the International Tender Offer Price of the Shares sold by HM Treasury in the International Tender Offer, unless the number of Shares so sold is less than 675 million or more than 787.5 million, in which case the Management Commission Base Amount shall be the value at the International Tender Offer Price of 675 million or 787.5 million Shares, respectively, and each Manager's management percentage is the proportion of the number of Shares to be sold in the International Tender Offer set out in the International Tender Offer Agreement. Out of such commissions, each Regional Lead Manager on behalf of the syndicate shall pay their respective legal and other expenses in connection with or arising out of the preparation or negotiation of the agreement, the Purchase Memorandum and the Orderly Marketing Agreement, except as otherwise agreed in writing with HM Treasury. All other out of pocket costs, charges and expenses of and incidental to making the International Tender Offer (together with any UK VAT thereon) duly authorised by HM Treasury shall, as between HM Treasury and the Manager, be borne by HM Treasury.

HM Treasury has further agreed (for itself in respect of the Shares sold by it under the International Tender Offer

and on behalf of the Global Co-ordinator in respect of Shares which the Global Co-ordinator may over-allot) with the Managers to pay a selling commission (together with any UK VAT thereon) to each Manager equal to 0.6 per cent. of the aggregate value at the International Tender Offer Price of the Shares allocated to that Manager in the Purchase Memorandum, provided that, if the number of Shares sold by HM Treasury in the International Tender Offer exceeds 787.5 million, selling commission on the excess sold by HM Treasury (excluding Shares sold pursuant to the exercise of the over-allotment option) shall be calculated at the rate of 1 per cent., of which 0.6 per cent. will be allocated according to sales and the balance will be distributed between Managers who have sold more than their management amounts (being the number of Shares by reference to which their management commissions are calculated) in the proportion that each such Manager's excess bears to all such Managers' excess sales over their respective management amounts. The Canadian Managers and the US Managers have separately entered into certain commission sharing arrangements;

- (vi) HM Treasury has given certain warranties and representations to the Managers and has indemnified the Managers against certain liabilities arising under the Combined Offers. The Managers have given certain warranties and undertakings to HM Treasury and indemnified HM Treasury against certain liabilities;
- (vii) the agreement provides that any over-allotment and any stabilisation transactions effected by the Global Co-ordinator in connection with the International Tender Offer will be conducted by the Global Co-ordinator as principal for the account of the several Managers and not as agent for HM Treasury. The Global Co-ordinator has undertaken in the agreement to HM Treasury that any over-allotment and any stabilisation transactions will be carried out in accordance with all relevant regulatory requirements, including the rules of the UK Securities and Investments Board; and
- (viii) the Global Co-ordinator has the option by notice to HM Treasury, given not later than the Stabilisation Period End Date, to purchase from HM Treasury at the International Tender Offer Price a number of Shares not exceeding the greater of 15 per cent. of the Shares sold by HM Treasury in the International Tender Offer and 7½ per cent. of the number of Shares sold by HM Treasury in the Combined Offers. The Global Co-ordinator may exercise the option to acquire Shares from HM Treasury in order to settle over-allotments and such exercise may be revoked in whole or in part before the end of the option period. The Global Co-ordinator shall pay in cash for all Shares in respect of which the option is exercised and not revoked. In relation to Shares in respect of which the option is revoked, the Global Co-ordinator shall transfer an equivalent number of Interim Rights to HM Treasury or, at the election of the Global Co-ordinator, make an equivalent payment in cash. Management and selling commissions at the rates referred to in paragraph (v) above shall be payable to the Global Co-ordinator on the number of Shares in respect of which the option is exercised and not revoked. The maximum number of Shares in aggregate to be sold pursuant to the Combined Offers does not include the maximum number of such additional Shares.

(c) An agreement (the "Agreement for Warranties and Indemnities") dated 21st November, 1991 between HM Treasury (1), the Directors of the Company (2) and the Company (3) under which the Company has given certain warranties to HM Treasury relating to the information about the Company (identified in the agreement) contained in this document and certain documents used in connection with the Combined Offers (together "the Prospectuses"). HM Treasury has given certain warranties to the Company and the Directors relating to the Prospectuses and the Company has received an indemnity from HM Treasury in relation to certain liabilities under the Combined Offers and each of the Directors has received an indemnity from HM Treasury in relation to certain liabilities under the Combined Offers. The agreement also contains certain undertakings by the Company in relation to the Combined Offers.

(d) An agreement (the "Global Co-ordinator's Agreement") dated 21st November, 1991 between HM Treasury (1), S.G. Warburg Securities (2) and SGW (3) under which HM Treasury has appointed S.G. Warburg Securities to act as Global Co-ordinator of the Combined Offers and to conduct, and act as bookrunner for, the International Tender Offer. The agreement contains certain indemnities given by HM Treasury to the Global Co-ordinator.

(e) An agreement (the "Agency Agreement") dated 21st November, 1991 between HM Treasury (1) and SGW (2) under which HM Treasury has appointed SGW as its agent on its behalf to make the UK Public Offer. The agreement contains certain indemnities given by HM Treasury to SGW.

7. SELLING COMMISSIONS

Selling commission and reallowance of selling commission

Eligibility

Members of the following organisations as at 4th December, 1991 will be eligible for selling commission from HM Treasury as Selling Agents ("Selling Agents"):

- (a) the Securities and Futures Authority Limited;
- (b) Investment Management Regulatory Organisation Limited;
- (c) the Financial Intermediaries, Managers and Brokers Regulatory Association; and
- (d) member firms of the London Stock Exchange who are situated in the Channel Islands, the Isle of Man or Ireland;

but excluding persons who were members of the Committee of London and Scottish Bankers on 30th March, 1991, their retail banking subsidiaries and certain other designated banks (the "UK Clearing Banks").

Persons authorised as at 4th December, 1991 to carry on investment business in the UK for the purposes of section 3 of the Financial Services Act 1986 and their appointed representatives (other than UK Clearing Banks and those eligible for selling commission as Selling Agents) will be eligible for reallowance of selling commission as Financial Intermediaries ("Financial Intermediaries").

Although claimants may be eligible to claim selling commission or reallowance of selling commission, it is the responsibility of each claimant to satisfy itself that the rules of its relevant regulatory body and the terms on which it is a

member permit it to engage in the activities in connection with which a claim for such selling commission or reallowance of selling commission arises. Claimants will be required to make a declaration as to their eligibility on making their claim and will also be required to provide details of the regulatory body from which they derive authorisation for the purposes of the Financial Services Act 1986. Claimants should ensure that they use the appropriate claim forms for Selling Agents (coloured blue) or for Financial Intermediaries (coloured pink).

Rates

Except as set out below, selling commission will be paid in respect of successful applications on duly stamped Private Client application forms and Shareholder Private Client application forms (as described in Part 11 of this document) and allocations resulting from successful applications on duly stamped Bulk application forms (as described in Part 11 of this document).

Selling commission will be payable at the following rates:

- (a) Private Client application forms and Shareholder Private Client application forms: at the rate of £1.30 in respect of each successful application (of which 50p will be reallowable to Financial Intermediaries);
- (b) Bulk application forms:
 - (i) on allocations of Shares with a value at the fully paid UK Public Offer Price of up to and including £10,000, at the rate of 1.25 per cent. of such value (of which 0.5 per cent. of such value will be reallowable to Financial Intermediaries); and
 - (ii) on allocations of Shares with a value at the fully paid UK Public Offer Price of over £10,000, at the rate of 1.25 per cent. of such value (of which 0.5 per cent. of such value will be reallowable to Financial Intermediaries) on the first £10,000 and 0.5 per cent. of the balance (of which 0.25 per cent. of such balance will be so reallowable). However, the maximum aggregate payment of selling commission will be £325 per allocation and the maximum aggregate reallowance will be £150 per allocation.

Selling commission and reallowance of selling commission payable in respect of Bulk application forms will be calculated as if each underlying application on such application forms had been made separately. Selling commission on Bulk application forms will be rounded down to the nearest £1. No selling commission will be payable to any Selling Agent who would otherwise be entitled to a payment of less than £10 and the right is reserved not to pay selling commission in respect of any Bulk application form on which an application is made for the benefit of fewer than 15 clients.

Claims for selling commission and reallowance

Selling Agents and Financial Intermediaries will be required to submit claims for the selling commission or reallowance of selling commission due to them on the relevant claim form. Commission will only be payable where the amounts claimed can be substantiated by the relevant Selling Agents' or Financial Intermediaries' records as well as by completed claim forms.

Financial Intermediaries wishing to claim reallowance of selling commission must submit all completed application forms not already bearing a Selling Agent's stamp to a Selling Agent so that the Selling Agent can apply his stamp prior to

lodging the application forms with a receiving bank before the closing date of the UK Public Offer. To qualify for reallowance of selling commission, all application forms submitted in this way must also bear the Financial Intermediary's own stamp. The Financial Intermediary should then submit a claim form (coloured pink) to the Selling Agent whose stamp appears on such application forms, to be received by that Selling Agent not later than 3.00 p.m. on 10th January, 1992.

In order to claim selling commission, each Selling Agent must complete a single Selling Agent's claim form (coloured blue) covering both:—

- (a) application forms bearing only his stamp; and
- (b) application forms bearing his stamp and the stamp of a Financial Intermediary.

Selling Agents should then send their own completed blue claim forms, together with the originals of all supporting Financial Intermediaries' pink claim forms, to the appropriate receiving bank as set out below:

- (a) claim forms in respect of Bulk application forms should be sent to Lloyds Bank Plc; Registrar's Department, Issue Section, 2nd Floor, Bolsa House, 80 Cheapside, London EC2V 6EE; and
- (b) claim forms in respect of Private Client application forms and Shareholder Private Client application forms should be sent to National Westminster Bank PLC, Registrar's Department, P.O. Box 663, Hartcliffe Way, Hartcliffe, Bristol BS99 1XU.

All claim forms must be received by the appropriate receiving bank not later than 3.00 p.m. on 17th January, 1992.

Selling commission payable to each Selling Agent in respect of allocations of Shares, at the rates set out above, will be the lesser of:—

- (a) the amount claimed by that Selling Agent; and
- (b) the amount calculated by the relevant receiving bank to be payable on forms bearing that Selling Agent's stamp lodged with the receiving banks.

Each Selling Agent must then pay to Financial Intermediaries the appropriate reallowance of the selling commission which it has received. Neither S.G. Warburg & Co. Ltd. nor HM Treasury will be liable for any failure by a Selling Agent to reallow selling commission to a Financial Intermediary.

No selling commission will be payable in respect of any application form which:—

- (a) contains a multiple application (or suspected multiple application) or other breach of warranty, or an application which has been solicited in contravention of section 56 of the Financial Services Act 1986;
- (b) bears the stamp of a Financial Intermediary only;
- (c) is any form other than a Private Client application form, a Shareholder Private Client application form or a Bulk application form; or
- (d) represents a wholly unsuccessful application.

Multiple applications

Multiple applications (as defined in Part 11 of this document), or suspected multiple applications, are liable to be rejected and the right is also reserved not to pay any selling

commission to any Selling Agent whose stamp appears on such applications. Selling Agents and Financial Intermediaries should emphasise to their clients that multiple applications are prohibited. Criminal proceedings may be instituted against anyone knowingly making or authorising a multiple application or knowingly claiming selling commission or reallowance in respect of a multiple application.

All Selling Agents and Financial Intermediaries are required to adopt appropriate procedures to ensure that multiple applications are not made bearing their stamp. Such procedures should include the appointment of a member of their staff with the appropriate level of seniority to implement them and to ensure that all applications are properly reviewed. Procedures which should be implemented include:—

- (a) informing all members of staff who will be dealing with applications that multiple applications are prohibited;
- (b) inspecting application forms prior to their submission; and
- (c) keeping proper records of application forms submitted by them which bear their firm's stamp.

Declarations will have to be made by both Selling Agents and Financial Intermediaries claiming selling commission or reallowance of selling commission stating that they have complied with the procedures outlined above.

HM Treasury has appointed Touche Ross & Co. to review the procedures adopted and records kept by those claiming selling commission. It is a condition of eligibility for selling commission that HM Treasury is given the right (through Touche Ross & Co.) to have access to the premises and records of Selling Agents and Financial Intermediaries and, if HM Treasury sees fit, to carry out an audit of any selling commission claimed. HM Treasury reserves the right not to pay any selling commission where the relevant Selling Agent or Financial Intermediary fails to satisfy Touche Ross & Co. that he is eligible to claim selling commission or reallowance of selling commission, or that adequate procedures have been adopted and followed, or adequate records kept, to prevent multiple applications, or who fails to complete the necessary claim form properly.

Share Shop commissions

Each Share Shop (as described in Part 11 of this document) will receive from HM Treasury a commission of £1.00 for each application on a Share Shop application form or a Shareholder Share Shop application form (as described in Part 11 of this document) relating to it, and each Employee application form (as described in Part 11 of this document) on which it was validly selected as a Share Shop, in respect of which Shares are allocated. In addition, each Share Shop which is not a receiving bank for the UK Public Offer and which is providing an application form collection service in connection with the UK Public Offer will receive from HM Treasury a commission of 30p for each application form it collects.

8 SUMMARY OF INSTALMENT AGREEMENT

The Shares being sold under the Combined Offers are to be paid for in three instalments, the first instalment being payable in accordance with the terms and conditions applicable to a person purchasing Shares in the International Tender Offer or the UK Public Offer, as the case may be, the second instalment on or before 7th July, 1992 and the final instalment on or before 2nd March, 1993. Payment of the first instalment in respect of Shares purchased in the International Tender

Offer is due from Managers on or before 12th December, 1991. To enable Purchasers (as defined below) to transfer their rights to Shares without prejudicing the interests of HM Treasury, the Instalment Agreement dated 21st November, 1991 (the "Instalment Agreement"), to which every Purchaser will also be a party, has been entered into between HM Treasury, the Company, Lloyds Bank Plc (the "Agent Bank"), which will act as agent for HM Treasury in administering the provisions of the Instalment Agreement, and Lloyds Bank (Registrars) Nominees Limited (the "Nominee"), which will hold the relevant Shares as nominee for HM Treasury. The following description of the rights of persons registered as holders of Interim Rights (as defined below) is a brief summary only of the Instalment Agreement, does not purport to be complete and is qualified in its entirety by reference to the Instalment Agreement.

For the purposes of this summary, a "Purchaser" means a person who is shown on the register of holders of Interim Rights (as defined below) maintained under the Instalment Agreement (the "Interim Rights Register"). Persons who have agreed to purchase Shares in the Combined Offers will be entitled to be shown on the Interim Rights Register, and so become Purchasers, once they have paid, in cleared funds, the first instalment in respect of the Shares which they have agreed to purchase. Copies of the Instalment Agreement are available for inspection until 2nd March, 1993 at Lloyds Bank Plc, Registrar's Department, Goring-by-Sea, Worthing, West Sussex BN12 6DA. Full copies (on payment of a reasonable fee) or a summary (without payment) of the Instalment Agreement may also be obtained from this address until that date.

General

The Instalment Agreement deems there to be a separate contract between HM Treasury and each Purchaser in respect of each Share which HM Treasury agrees to sell to that Purchaser. Each such Share shall be registered in the name of the Nominee (or any substitute for the Nominee) as nominee for HM Treasury until all of the instalments in respect of such Share shall have been duly paid, after which each such Share shall be transferred to the Purchaser and a definitive share certificate (if still applicable) will be issued to him. The Instalment Agreement is designed, subject to its terms and except as described below, to confer and impose on Purchasers rights and obligations substantially similar to those conferred and imposed on registered holders of Shares.

If a Purchaser is also a holder of Shares on the register of members of the Company, the Company and HM Treasury may agree that his rights to payment of dividends and to receive notices, voting papers, reports and other circulars should be combined so that he only receives a single item (representing his combined rights). A Purchaser may receive summary financial statements published by the Company rather than full annual accounts, unless he elects otherwise by notice in writing to the Company.

The Instalment Agreement provides that Purchasers will not be entitled as against HM Treasury to exercise any remedy of rescission for innocent misrepresentation.

Until the final instalment has been paid and definitive share certificates (if still applicable) have been issued to them, Purchasers will have certain rights and obligations ("Interim Rights") in respect of the Shares which they have agreed to purchase. The Agent Bank will issue on behalf of HM Treasury Interim Certificates to Purchasers to evidence their Interim Rights to these Shares.

Purchasers on the Interim Rights Register at 3.00 p.m., London time, on 7th July, 1992 and 2nd March, 1993 are obliged to pay the second and final instalments, respectively, for value by that time. Call notices will be despatched to Purchasers before the payment dates, but a Purchaser is liable to pay even if he does not receive a call notice. Each joint Purchaser of a Share is jointly and severally liable in respect of each instalment.

Default in respect of payments of instalments

If a Purchaser fails to pay when due any instalment of the price for any Shares, HM Treasury may (without prejudice to its other rights) avoid its agreement to sell that Share to that Purchaser and may resell the Share to someone else. Following resale, the defaulting Purchaser will be sent a refund per Share resold, without interest, equal to the amount of the first instalment paid by a person purchasing Shares in the UK Public Offer (if the default is in relation to payment of the second instalment) or an amount equal to the aggregate of such first instalment and the second instalment, less any instalment discount, if applicable, (if in relation to the final instalment) less in each case any loss sustained by HM Treasury. No payment will, however, be made to any person of any aggregate amount of less than £2.50. If HM Treasury in its absolute discretion accepts late payment, it may do so on the basis that the Purchaser pays default interest as set out in the Instalment Agreement and/or such other amount as HM Treasury may specify. If any payment made by a Purchaser is insufficient to satisfy the second instalment or the final instalment, as appropriate, then due upon all his Shares, then (in the absence of any express appropriation by the Purchaser) that payment will be appropriated by HM Treasury in payment of such instalment in respect of so many of such Shares (the particular Shares being determined by HM Treasury in its discretion) as possible and any balance will be retained by HM Treasury.

Dividends

Cash dividends paid by the Company will be sent by the Company directly to the relevant Purchasers or in accordance with their written directions at their risk. If the Company gives the holders of Shares an option to elect to receive fully paid Shares instead of cash dividends, it will use reasonable endeavours to make arrangements which give such option to Purchasers on the same basis and any Shares issued in lieu of a cash dividend pursuant to such an option being exercised will be issued or transferred to the relevant Purchasers.

Capitalisation issues etc.

If there is a capitalisation issue of fully paid Shares, HM Treasury and the Purchasers will be deemed to have agreed to sell and purchase them on the basis that, subject to provisions for dealing with fractional entitlements, the price agreed to be paid for the Shares sold in the Combined Offers will be distributed as provided in the Instalment Agreement over those Shares and the new Shares attributable thereto, so that a Purchaser will be obliged to pay no more for his increased holding than for his original holding and his liability to pay further instalments will be proportionately distributed over the increased holding. Corresponding provisions have been made for the consolidation and sub-division of Shares.

Rights issues

If the Company offers Shares or other securities to holders of Shares by way of rights, the entitlements of the Nominee as the registered holder of Shares will be offered to

Purchasers pro rata to their holdings of Interim Rights, ignoring fractions, in substantially the same manner as to holders of Shares.

Other distributions of Shares

Subject to provisions dealing with fractional entitlements, legal title to any non-cash distribution (other than Shares being issued in lieu of a cash dividend) made by the Company to the Nominee as the registered holder of Shares will normally be retained by the Nominee as nominee for HM Treasury and HM Treasury will hold its interest for the benefit of the relevant Purchasers. Such legal title will be transferred by the Nominee to the relevant Purchasers after payment of the final instalment subject to the Purchasers paying any stamp duty or stamp duty reserve tax in connection with such transfer and to such arrangements as may be agreed by HM Treasury, the Company and the Agent Bank. Purchasers at the time when such a distribution is made to the Nominee may, as a result, have to satisfy a tax liability before they receive the transfer.

Transfers

Interim Rights will be transferable in the same way as fully paid Shares. No transfer of Interim Rights will be registered without delivery to the Agent Bank of a duly completed and stamped instrument of transfer supported by the relevant document of title. Unless the transfer is in favour of SEPON Limited, these documents must be accompanied by payment of the second instalment, if submitted after 3.00 p.m., London time, on 4th June, 1992, and the final instalment, if submitted after 3.00 p.m., London time, on 28th January, 1993, and, if required, default interest and/or such other amount as HM Treasury may specify if late payment is accepted. On registration of a transfer, the transferee will become the new Purchaser of the Shares. He will also become a party to the Instalment Agreement and will be entitled to the rights conferred, and subject to the obligations (including the obligation to pay outstanding instalments) imposed, by it to the exclusion of all predecessors in title. The person tendering any documents for registration is deemed to warrant his authority to do so as, or on behalf of, the transferee(s) named therein. The Instalment Agreement contains further provisions dealing with the transfer of Interim Rights and transmission on death, bankruptcy and mental incapacity and restricting transfers to persons who are not of full capacity or to more than four persons jointly.

Voting rights

Purchasers will be sent notices of meetings of shareholders of the Company and arrangements will be made to enable them to attend, speak and vote in respect of the Shares they are purchasing to a similar extent and subject to similar restrictions as if they were registered holders of those Shares. Meetings of Purchasers may be convened by the Company or HM Treasury, and, if the Agent Bank as agent for HM Treasury receives such funds, indemnity and/or security as it may reasonably require, by Purchasers holding at least one-tenth of all the Interim Rights. Any resolution passed at such a meeting binds all Purchasers. A Purchaser whose registered address is outside the UK and who wishes to receive notices of meetings must give the Agent Bank an address within the UK to which they may be sent.

Disclosure requirements and restrictions on ownership of Interim Rights

The provisions of the Articles which relate to disclosure requirements and which limit the size of holdings in the Company are applied to Interim Rights in substantially the same way as they apply to Shares.

A Purchaser upon whom the Directors serve a notice requiring him to make a disposal (a "Required Disposal") of Shares to which his Interim Rights relate may not transfer any of those Interim Rights (except in order to make the Required Disposal) and shall not be entitled to exercise voting or certain other rights in respect of those Interim Rights, until that notice has been withdrawn or those Interim Rights have been disposed of. If that Purchaser does not dispose of those Interim Rights when required to do so, some or all of those Interim Rights may be sold, and any proceeds of sale (without interest and after deduction of the expenses of sale and the amount of any unpaid instalments) will be paid to the former Purchaser upon surrender to the Agent Bank as agent of HM Treasury of the Interim Certificate(s) in respect of the Interim Rights sold or, if appropriate, after the date following which such Interim Certificate(s) can no longer be used to support a transfer.

Inspection of the Interim Rights Register and Data Protection Act 1984

The Interim Rights Register may be inspected by any Purchaser or other person, and the information contained in the Interim Rights Register may be disclosed to HM Government departments (and their agents) concerned with other privatisations and to members of the police forces for compiling lists of suspected multiple applicants.

Amendment to the Instalment Agreement

The Company, the Agent Bank, the Nominee and HM Treasury may amend the Instalment Agreement in any respect which HM Treasury and the Company consider necessary or desirable without the consent of the Purchasers in order to cure any ambiguity, defect or manifest error or to effect any procedural change or in any manner which HM Treasury and the Company deem necessary or desirable (including, without limitation, to facilitate dealings or settlements on the London Stock Exchange or any other securities market or to facilitate paperless trading of securities) which does not, in their opinion, materially prejudice the interests of any Purchasers. Other amendments and modifications of the rights of Purchasers or the release or exoneration of HM Treasury can be approved by extraordinary resolution passed at a meeting of Purchasers. No such amendment may, and no meeting of Purchasers has power to, vary materially the rights of any Purchaser, on due compliance with the provisions of the Instalment Agreement, to pay for, and take a transfer of, any of his Shares and, pending such transfer, to enjoy all the rights of ownership conferred upon him by the Instalment Agreement in respect of such Shares or to modify or abrogate any right to receive the profits and income arising directly or indirectly from such Shares.

Taxes, etc.

Purchasers may be required to execute or furnish documents in order to comply with any fiscal or other requirements in respect of their Interim Rights or Shares. Except as specified in the Instalment Agreement, each Purchaser is responsible for all taxes, duties and governmental charges and expenses which may become payable in respect of his Interim Rights or Shares. Therefore, if any of the same are paid or payable in the first instance by HM Treasury, the Agent Bank or the Nominee, the Purchaser must pay the same to HM Treasury, the Agent Bank or the Nominee (as the case may be)

upon request. Failure to do so may result in the sale of some or all of the Purchaser's Interim Rights or Shares.

Miscellaneous

The Instalment Agreement is governed by English law. Each Purchaser submits to the jurisdiction of the English courts. All documents sent to joint Purchasers will be sent to the addresses of the first-named in the Interim Rights Register. The liabilities and duties of HM Treasury and the Company to Purchasers are subject to certain limitations and exclusions. The Agent Bank and the Nominee as agent and nominee, respectively, of HM Treasury owe their obligations to HM Treasury and not to Purchasers.

9 UK TAXATION

Holder (and prospective holders) of Interim Rights should consult appropriate professional advisers concerning their liabilities to tax, both in the UK and in any other country in which they are subject to tax, in respect of or relating to Shares or Interim Rights.

Under current law, the Company will have to account to the Inland Revenue for advance corporation tax ("ACT"), currently at the rate of one-third of the dividend when it pays a dividend.

A holder of a Share or Interim Right who is resident for tax purposes in the UK and who receives a dividend from the Company will normally be entitled to a tax credit of an amount equal to the related ACT. A UK resident individual will normally be liable to tax upon the total of the dividend received and the tax credit, but the tax credit will discharge his liability to basic rate income tax and, if the tax credit exceeds his overall liability to income tax (taking into account his other income and any other tax credits and allowances), he will be able to claim payment of the excess from the Inland Revenue. For a UK resident corporate shareholder, any dividend received and the related tax credit will normally be franked investment income.

Subject to certain exceptions for individuals who are Commonwealth citizens, citizens of the Republic of Ireland, residents of the Isle of Man or the Channel Islands and certain others, the right of a holder of a Share or Interim Right who is not resident for tax purposes in the UK to claim any part of the tax credit will depend upon the existence and terms of any double tax treaty between the UK and the jurisdiction in which that person is resident. Persons who are not resident in the UK should consult their own tax advisers concerning their tax liabilities (in the UK and any other jurisdiction) on dividends received, whether they are entitled to claim any part of the tax credit and, if so, the procedure for doing so, and whether any double taxation relief is due in any jurisdiction in which they are subject to tax.

Shares and Interim Rights are assets situated in the UK for the purposes of UK inheritance tax. A gift of such assets or the death of a holder of such assets may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax, even if the holder is neither domiciled in the UK nor deemed to be domiciled there under special rules relating to long residence or previous domicile in the UK. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift. Special rules also apply to trusts which own assets which are situated in the UK and gifts where the donor reserves some benefit.

10 MISCELLANEOUS

- (a) The Company was incorporated under the Companies Acts 1948 to 1981 on 1st April, 1984 as a public limited company with registered number 1800000.
- (b) The Company considers that no legal or arbitration proceedings are pending or threatened against the Company or any of its subsidiaries which may have or have had during the past twelve months a significant effect on the financial position of the Group taken as a whole.
- (c) The Company considers that, save for the agreement referred to in paragraph 6(c) of this Part 10, there are no contracts which have been entered into by a member of the Group, not being contracts entered into in the ordinary course of business, within the two years immediately preceding the date of this document, which are or may be material.
- (d) The Company considers that, save as disclosed herein, there has been no significant change in the financial or trading position of BT since 1st November, 1991, the date of publication of BT's financial results release for the six months ended 30th September, 1991.
- (e) The Company owns 64.7 per cent. of the issued share capital of Sharelink Limited, which is acting as a Share Shop in connection with the UK Public Offer.
- (f) BT has insurance cover to certain limits for major risks on property and major claims in connection with legal liabilities arising in the course of its operations. Otherwise, BT generally carries its own risks.
- (g) As at 20th November, 1991, the Company had not been notified of any person, other than HM Treasury, interested directly or indirectly in three per cent. or more of the issued ordinary share capital of the Company or of any persons who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.
- (h) Pursuant to the Telecommunications Act, in March 1985 the Secretary of State fixed a target investment limit for HM Government's shareholding in the Company after the 1984 flotation of the Company. The first target investment limit requires HM Government to ensure that the proportion of voting rights which are carried by HM Government's shareholding and which are exercisable in all circumstances at general meetings of the Company is not increased beyond the 49.8 per cent. carried by HM Government's shareholding immediately following the 1984 flotation. The Secretary of State or HM Treasury may from time to time fix a new target investment limit, which must be lower than the one previously in force. The effect of this is to prevent HM Government increasing its voting shareholding in the Company without legislation first being passed.
- (i) S.G. Warburg Securities and SGW are financial advisers to HM Treasury in connection with the Combined Offers. S.G. Warburg Securities and SGW or any of their connected or affiliated companies (or their employees) may have a position in Shares or other securities of (or options, warrants or rights with respect to, or interests in, Shares or other securities of) the Company and they or any of such other companies may make a market or act as a principal in any transactions in Shares or other such securities.
- (j) No prospectus in relation to the Shares has been lodged with, or registered by, the Australian Securities Commission.

A person may not (directly or indirectly) offer for sale or issue invitations to buy or sell the Shares and may not distribute any draft or definitive document in relation to any such offer, invitation or sale in the Commonwealth of Australia, its territories or possessions ("Australia") or to any resident of Australia (including corporations and other entities organised under the laws of Australia but not including a permanent establishment of such corporation or other entity located outside Australia), except as permitted without the registration or lodgement of a prospectus under the Australian Corporations Law.

(k) Neither this document nor any copy of it may be taken or transmitted into Canada, or distributed or redistributed in Canada or to any Canadian person (as defined in Part 11 of this document).

Under the securities laws of most Canadian provinces, any person (including any individual, partnership or trustee) or company that acquires, directly or indirectly, beneficial ownership of, or the power to exercise control or direction over, 10 per cent. or more of the Shares will be required, within prescribed time periods, to issue a press release and file a report with the securities commission of each such province, The Toronto Stock Exchange and the Company, setting out prescribed details of such ownership, control or direction (or of changes in such information) and, in certain circumstances, to observe restrictions on further acquisitions of Shares.

(l) This document has not been submitted for formal approval by the Commission des Opérations de Bourse in France and this document and the information contained herein may not be supplied to the public in France or used in connection with any offer of Shares to the public in France.

(m) Neither this document nor any copy of it should be distributed in Japan or to any resident thereof for the purpose of solicitation of subscription or offer for sale of any securities or in the context where its distribution may be construed as such solicitation or offer.

(n) Neither this document nor any copy of it may be taken or transmitted into, or distributed in, the United States.

Any person (including any natural person, company, government or political sub-division thereof) which becomes the "beneficial owner" (as defined in the United States Securities Exchange Act of 1934, as amended) of more than five per cent. of the Shares becomes subject, under the terms of that Act, to an obligation to file prescribed reports of beneficial ownership (and reports of changes in such ownership) with the United States Securities and Exchange Commission (the "SEC"), the New York Stock Exchange and the Company on a

form prescribed by the SEC. For the purposes of this document, "United States" and "US" means the United States of America, its territories and possessions, any State of the United States, and the District of Columbia.

(o) Any failure to comply with the restrictions on distribution of this document referred to in paragraphs (j), (k), (l), (m) and (n) above may constitute a violation of the securities laws of the countries concerned. The distribution of this document in other jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions.

(p) Eight firms who are registered as market makers in the Shares and the ADSs on the London Stock Exchange, and three firms who are registered as market makers in the Shares only, are connected with certain of the Managers. These market makers will continue their market making activities in Shares and ADSs on the London Stock Exchange but, as a consequence of the application of the provisions of Rule 10b-6 of the United States Securities Exchange Act of 1934, during the period from 5th December, 1991 until the completion of the US distribution (expected to occur by the time dealings in the Interim Rights commence), they will be subject to certain restrictions, including not trading for the purpose of creating actual or apparent active trading or of raising the price of the Shares or the ADSs and maintaining records required by the London Stock Exchange regarding all such activities.

11 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents may be inspected at the offices of Linklaters & Paines, Barrington House, 59-67 Gresham Street, London EC2V 7JA during usual business hours on any weekday (Saturdays excepted) from 21st November, 1991 until 6th December, 1991:—

- (a) the Memorandum and Articles of Association of the Company;
- (b) the agreements referred to in paragraphs 6(a), (b) and (c) of this Part 10;
- (c) the Directors' service agreements and contracts of appointment referred to in paragraph 5 of this Part 10;
- (d) the audited accounts of BT for the 1990 and 1991 financial years;
- (e) BT's financial results release for the six months ended 30th September, 1991;
- (f) the Licence; and
- (g) the Instalment Agreement.

INCENTIVES

Introduction

If you duly apply for Shares in the UK Public Offer, you may be eligible to receive from HM Treasury EITHER the Share Bonus OR the Instalment Discount. These incentives are available only on Shares duly purchased in the UK Public Offer and not if they are bought subsequently. If you apply, or an application is made on your behalf, on a Public application form, you will not receive any incentive.

Eligibility conditions

To be eligible to apply for an incentive you must:

- (a) have been registered with the BT Share Information Office by midnight on 18th November, 1991 (unless you make a joint application and the first-named applicant has been so registered); and
- (b) be an individual investing solely for your own benefit (or investing jointly with not more than three other individuals, solely for the benefit of one or more of you).

If you make an application for the benefit of another person under one of the procedures described below, these eligibility conditions apply to that other person rather than to you. However, in the case of an application by an eligible employee on a personalised Employee application form or by an Approved Manager on a Bulk application form, each as described below, it is not necessary for the employee or the persons for whom the Approved Manager is applying to be registered with the Share Information Office for them to be eligible for an incentive.

Individual shareholders in the UK and certain overseas jurisdictions on the Company register in their own names at the close of business on 30th July, 1991, and certain participants in the BT Employee Share Ownership Scheme at that time, were automatically registered with the Share Information Office as qualifying BT shareholders.

In any case of doubt as to whether or not a person satisfies these eligibility conditions, the decision of HM Treasury shall be final and binding.

At midnight on 18th November, 1991, approximately 5.25 million individuals were registered with the Share Information Office, including approximately 1.0 million individuals automatically registered as described above.

Share Bonus

If you duly apply for this incentive, you will be entitled to receive one additional Share for every ten Shares you buy in the UK Public Offer and hold continuously until 31st December, 1994, subject to a maximum of 150 bonus Shares. Fractions of Shares will be rounded down to the nearest whole Share.

Any such additional Shares will be transferred to you as soon as reasonably practicable after 31st December, 1994 (together with all rights attaching to those Shares at that date). Any stamp duty or stamp duty reserve tax in respect of the transfer will be met by HM Treasury.

Under current law and Inland Revenue practice you will not pay tax in the UK on a Share Bonus when you receive it (unless you are a share dealer) and you will be treated for UK capital gains tax purposes as if you had paid, for the bonus Shares you receive, an amount equal to the market value of those Shares as at 31st December, 1994.

Instalment Discount

If you duly apply for this incentive, you will be entitled to receive a discount of 15p per Share on each of the second and final instalments on the first 1,000 Shares you buy in the UK Public Offer and hold continuously until the relevant instalment is paid.

Disposals of Shares

If Shares bought in the UK Public Offer are disposed of on or before the relevant qualifying date, your entitlement to incentives may be lost or reduced (whether or not you later acquire more Shares).

A transfer will not, however, result in loss of entitlement if the relevant transfer form is accompanied by a valid special certificate (obtainable from the registrar) which has been duly completed, provided that HM Treasury (whose decision will be final and binding) is satisfied that:

- (a) the transfer involves the registration of the Shares, following the death of the owner, in the name of one or more individuals entitled to the Shares under the owner's will or on his or her intestacy; or
- (b) the transfer will not involve any change in the beneficial ownership of the Shares and is to either:
 - (i) an Approved Manager, in which case that Approved Manager may be required to claim the relevant incentive for the benefit of the beneficial owner (as described under "Claims by Approved Managers" below); or
 - (ii) the beneficial owner immediately prior to the transfer (for example, where Shares were held for a child who has since reached the age of majority); or
- (c) one or more individuals are being added as joint holders by way of gift; or
- (d) the Shares are being transferred by joint holders into the name(s) of one or more of their number (so long as one or more of them are individuals who were beneficial owners of the Shares at the time of allocation and remain the beneficial owners after the transfer) without the addition of any other person.

In any such case, the transferor's entitlement to the incentive will be added to any entitlement which the transferee may already have in respect of Shares purchased in the UK Public Offer. If, as a result of such a transfer, you have an entitlement to both incentives and you subsequently dispose of Shares, your entitlement to such incentives shall be reduced or eliminated according to whether the Interim Certificate accompanying any transfer form shows you as entitled to the Share Bonus or the Instalment Discount, but, to the extent that this is not possible, your entitlement to the Instalment Discount will be reduced or eliminated before your entitlement to the Share Bonus.

If a joint holder dies, the registration of the holding into the names of any remaining holders by virtue of survivorship will not be treated as a transfer and entitlement to an incentive will not be affected.

Loss of and changes in entitlement

You will lose all rights to any incentive if your application (including any application made for your benefit) is:

- (a) a multiple application; or
- (b) made in breach of the eligibility conditions.

However, you may retain any incentive deriving from an application made by you for your own benefit if that application falls within (a) or (b) above solely as a result of an application duly made for your benefit by another person authorised to do so on a discretionary basis and HM Treasury is satisfied that you were not aware of that other application.

HM Treasury reserves the right to cancel your rights to any incentive if you fail to pay any instalment by the due date or any false representation is made in connection with any application for your benefit.

The number of Shares which will be taken into account in calculating entitlements to the Instalment Discount or which will qualify for the Share Bonus (and the maximum number of bonus Shares) will be amended pro rata (ignoring fractions) if there is any capitalisation issue or any consolidation or sub-division of the Company's share capital.

Claims by Approved Managers

An Approved Manager holding Shares for more than one client under a single entry on the share register must claim incentives for the benefit of each of such clients as may be entitled to them at any qualifying date. In order to claim, the Approved Manager will be required to supply the names, addresses and client account numbers of the individuals for whose benefit he is claiming and to warrant the number of Shares continuously held for each such individual. The claim for incentives should reach the registrar not later than 3.00 p.m. on the fifth business day (the "Claim Date") after the relevant qualifying date. Any relevant bonus Shares will, provided that the claim is accepted, be transferred to the Approved Manager about three weeks after the date of transfer of bonus Shares to individuals.

Because the call notices sent to such Approved Managers for the second and final instalments will not take account of the Instalment Discount (if applicable), the Approved Manager must, in order to claim the Instalment Discount for the benefit of his clients, provide the information and warranty mentioned above and pay the amount stated on the relevant call notice, less the Instalment Discount claimed, for value by 3.00 p.m. on the relevant date for payment and submit a claim no later than 3.00 p.m. on the Claim Date.

A certificate for the number of Shares on which the relevant instalment can be met in full by that payment will be sent to the Approved Manager on the normal date for despatch of such certificates. A certificate for the balance will be sent approximately three weeks after the Claim Date if that claim is accepted. To the extent that a claim for any Instalment Discount is not accepted, then (provided HM Treasury is satisfied that the warranty of the Approved Manager regarding entitlement to the Instalment Discount was not knowingly or recklessly breached) HM Treasury will allow the Approved Manager to remit the shortfall immediately on demand without exercising its rights under the Instalment Agreement.

If a beneficial interest in Shares is disposed of on or before the relevant qualifying date, the entitlement to an incentive may be lost or reduced in the same manner as on disposals of Shares (as described under "Disposals of Shares" on page 37). A disposal of a beneficial interest will not result in loss of entitlement if the Approved Manager provides evidence satisfactory to HM Treasury (whose decision will be final and binding) that such loss of entitlement would not have resulted had it been a disposal of Shares.

SHARE SHOPS

Eight organisations (set out in Part 12 of this document) will act as Share Shops in connection with the UK Public Offer to provide a special share dealing service for a range of shares.

Eligibility conditions

To be eligible to use the share dealing service you must satisfy the requirements under "Eligibility conditions" set out on page 37 and:—

- (a) have selected (or have had selected on your behalf) one of the Share Shops, whose name was recorded by the Share Information Office, by midnight on 18th November, 1991 (unless you make a joint application and a selection by or on behalf of the first-named applicant was so made and recorded); and
- (b) duly apply on a Share Shop application form or a Shareholder Share Shop application form and be allocated Shares as a result.

These requirements (other than (b) under "Eligibility conditions" on page 37) will be deemed to have been satisfied in the case of an eligible employee who duly applies on a personalised Employee application form, selects a Share Shop on that form and is allocated Shares as a result.

The terms and conditions of the share dealing service (which will constitute a contract between the relevant applicant and each Share Shop) are set out in Part 12 of this document.

You will lose all rights to use the share dealing service if your agreement to purchase Shares is terminated by HM Treasury, whether as a result of your failing to pay the first instalment by the due date or otherwise.

APPLICATIONS AND PREFERENCE

Introduction

Only one application may be made for your benefit in the UK Public Offer. You should read the following section carefully in order to check that you are eligible to use the application form you intend to complete and, if you receive more than one form, to decide which to use. In addition to an application in the UK Public Offer, bids on your behalf may also be made in the International Tender Offer which is described in Part 2 of this document.

The application form you may use will depend on a number of factors: whether you are registered with the Share Information Office; whether you have selected a Share Shop or are registered as a private client; whether you are a qualifying shareholder; and whether you are an eligible employee. Different levels of preference will attach to applications on the various forms. Further details of the forms and the relative levels of preference are set out below. However, there is no guarantee that an allocation will be made to those entitled to any level of preference, whether or not allocations are made to others. There are special arrangements for eligible employees as set out below.

Applications cannot be revoked pending acceptance by HM Treasury. Except for applications on Public application forms, applications can only be made by or for the benefit of individuals.

Shareholder preference

Approximately but not more than 10 per cent. of the Shares available in the UK Public Offer will be reserved to provide qualifying shareholders (as defined on page 43) who duly apply with a greater allocation than they would otherwise have received.

In certain limited circumstances, a person allocated Shares pursuant to the exercise of such shareholder preference and who held no Shares (or interests in Shares) at the close of business on 30th July, 1991, other than Shares (or interests in Shares) which he acquired on or after 26th October, 1987, by reason of his office as a director of or his employment by the Company or any other company may incur a liability to UK income tax on the benefit he derives from such shareholder preference.

The receipt of shareholder preference by other persons will not give rise to UK income tax or UK capital gains tax.

An eligible employee receiving Shares up to but not exceeding the employee Priority Level will not be treated as receiving Shares pursuant to the exercise of shareholder preference.

Employee priority and preference

Eligible employees (as defined on page 43) who duly apply for Shares will be allocated in full the number of Shares applied for up to a certain level (the "Priority Level") which will be 1,000 Shares per eligible employee or such lower number as is described below. An eligible employee who applies for a number of Shares which exceeds the Priority Level will be allocated in full the number of Shares constituting the Priority Level and will be treated as having made a separate application for the balance which will be treated as if made by a person registered with the Share Information Office and entitled to preference in allocation according to whether he has selected a Share Shop and/or is a qualifying shareholder. If the total allocation of Shares to eligible employees at or below a Priority Level of 1,000 Shares would exceed the lower of 10 per cent. of the Shares sold by HM Treasury in the Combined Offers, together with the Shares the subject of the Global Co-ordinator's option to purchase Shares to satisfy over-allotments, and 40 per cent. of the Shares sold by HM Treasury in the UK Public Offer, the Priority Level will be reduced until allocations at or below the Priority Level no longer exceed this amount.

Application forms and preference

Public application form

If you were not registered with the Share Information Office by midnight on 18th November, 1991 and wish to apply for Shares in the UK Public Offer, you should complete a Public application form (such as the form at the end of this document). Public application forms cannot be used to apply for incentives or to obtain preference in allocation.

Registrant application form

If you were registered with the Share Information Office by midnight on 18th November, 1991, you are being sent a personalised Registrant application form, with a guide on how to complete it. If you duly apply for Shares on that form, you will be eligible to apply for an incentive on Shares you receive, and will be given greater preference in allocation, on a basis to be determined, than those who apply on a Public application form if there is a heavy demand for Shares.

Share Shop application form

If, in addition to registering with the Share Information Office, you also selected one of the Share Shops, you are instead

being sent a personalised Share Shop application form, with a guide on how to complete it. If you duly apply for Shares on that form, you will be eligible to apply for an incentive on Shares you receive, and will be given greater preference in allocation, on a basis to be determined, than individuals who apply on a Registrant application form if there is a heavy demand for Shares. If you are then allocated Shares in the UK Public Offer, you will qualify for the share dealing service through the Share Shops referred to above.

Private Client application form

If you were registered with the Share Information Office by your stockbroker or other financial adviser as a private client, you are instead being sent a personalised Private Client application form, with a guide on how to complete it. If you duly apply for Shares on that form, you will be eligible to apply for an incentive on Shares you receive, and will be given the same preference in allocation as individuals who apply on a Share Shop application form. You will not, however, qualify for the share dealing service through the Share Shops.

Shareholder Registrant application form

If you were registered with the Share Information Office as a qualifying shareholder, you are instead being sent a personalised Shareholder Registrant application form, with a guide on how to complete it. If you duly apply for Shares on that form, you will be eligible to apply for an incentive on Shares you receive, and will be given greater preference in allocation, on a basis to be determined, than individuals who apply on a Registrant application form if there is a heavy demand for Shares.

Shareholder Share Shop application form

If you were registered with the Share Information Office as a qualifying shareholder and you also selected a Share Shop, you are instead being sent a personalised Shareholder Share Shop application form, with a guide on how to complete it. If you duly apply for Shares on that form, you will be eligible to apply for an incentive on Shares you receive, and will be given greater preference in allocation, on a basis to be determined, than individuals who apply on either a Share Shop application form or a Shareholder Registrant application form, if there is a heavy demand for Shares. If you are then allocated Shares in the UK Public Offer, you will qualify for the share dealing service through the Share Shops.

Shareholder Private Client application form

If you were registered with the Share Information Office as a private client and also as a qualifying shareholder you are instead being sent a personalised Shareholder Private Client application form, with a guide on how to complete it. If you duly apply for Shares on that form, you will be eligible to apply for an incentive on Shares you receive, and will be given the same preference in allocation as individuals who apply on a Shareholder Share Shop application form. You will not, however, qualify for the share dealing service through the Share Shops.

Bulk application forms

Special application forms are available for use by Approved Managers who wish to apply for Shares in the UK Public Offer on a single form on behalf of a number of clients who must be individuals. Individuals for whom such bulk applications are duly made will be eligible for an incentive on Shares allocated to them if one is applied for. Applications can be made in this way for qualifying shareholders, in which case the Approved

Manager must warrant on the form that such clients were qualifying shareholders. Such bulk applications for qualifying shareholders will be given the same preference in allocation as applications on Shareholder Share Shop application forms and Shareholder Private Client application forms. Such bulk applications for other individuals will be given the same preference in allocation as applications on Share Shop application forms and Private Client application forms.

Employee application form

If you are an eligible employee, you are being sent a personalised Employee application form, with a guide on how to complete it. If you duly apply for Shares on that form, you will be eligible to apply for an incentive on Shares you receive. You will also be able to select a Share Shop on the form and, if applicable, you will have to warrant that you are a qualifying shareholder. Your application will be dealt with as described under "Employee priority and preference" on page 39.

Applications on behalf of other persons

Attorneys and agents

You may use a power of attorney to appoint any responsible adult to apply for Shares (and, if you are eligible, for an incentive) on your behalf, in your name and for your benefit. Alternatively, you may authorise an official of a UK Clearing Bank or a Selling Agent or Financial Intermediary to apply on your behalf. Instructions as to the procedures that such attorneys and agents should follow when applying on your behalf are set out in the guide accompanying the relevant application form. Any attorney or agent signing an application form on your behalf will be required to warrant, in accordance with paragraph 18(i) of the terms and conditions of application, that he has authority to make the application on your behalf. An attorney must enclose the original of any power of attorney by which he is appointed or a copy of it certified by a solicitor.

There is a limit on the number of applications a person can make as attorney for other people. No person, other than an Authorised Attorney, may act as attorney for more than six applications. Paragraph 18(i) also contains a warranty to this effect.

Nominees

A nominee may apply in his own name on behalf of other persons. He may apply on behalf of an individual on a personalised application form (other than an Employee application form) if:

- (i) a separate registration has been made for the individual with the Share Information Office in the name of the nominee followed by "A/C" and the initials or other identifying details of the individual;
- (ii) the individual satisfies the relevant eligibility conditions; and
- (iii) the declaration on the reverse of the form is completed to the effect that the application is being made for the sole benefit of the individual and that the nominee is duly authorised to make the application on behalf of such person.

The nominee will not be required to make incentive claims for his client although the right is reserved by HM Treasury and its agents to inspect the nominee's records to verify the client's eligibility for preference in allocation and incentives.

Minors

Applications may be made by a parent, grandparent or guardian for the benefit of his or her child, grandchild or ward under the age of 18 (under 20 in Jersey) without thereby affecting the ability of that parent, grandparent or guardian to make an application for his or her own benefit in the UK Public Offer. Instructions as to how such applications should be made are set out in the guides accompanying the relevant application forms.

Corporations

A corporation may only apply on a personalised application form as nominee for an individual. Corporations applying on their own behalf may only do so on a Public application form. Applications made by corporations, whether on their own behalf or on behalf of other persons, must be signed by a duly authorised official, whose representative capacity must be stated.

Partnerships and other unincorporated bodies

A partnership, firm, trust, association, club or other unincorporated body may only apply on a personalised application form as nominee for an individual. Applications by these organisations on their own behalf or by others on their behalf may only be made on a Public application form.

Applications by Approved Managers on Bulk application forms

An Approved Manager may apply on a Bulk application form for the benefit of one or more individuals provided that the application is solely for the benefit of those individuals and that the Approved Manager himself has no beneficial interest in the application. The Approved Manager will be required to supply, by 5.00 p.m. on 9th December, 1991, the names, addresses and client account numbers of the individuals for whose benefit he is applying.

An Approved Manager may only apply on a Bulk application form for the benefit of individuals who were his clients prior to midnight on 18th November, 1991 and from whom he had authority to apply.

An Approved Manager making applications on a discretionary basis may use the Discretionary Bulk application form. The form will require him to give a warranty concerning multiple applications and to warrant that the application on the form is not being made on the instructions of any of his clients. The Approved Manager will not, however, be required to make enquiries of a client unless he has reason to believe that more than one application is being made in the UK Public Offer for the benefit of that client.

An Approved Manager making applications on the instructions of his clients may use the Non-discretionary Bulk application form. This form will require him to give a warranty concerning multiple applications and will include a warranty that each client has confirmed to him (whether in writing or not) that, to the knowledge and/or belief of that client, no other application is being made in the UK Public Offer for that client's benefit.

No multiple applications

ONLY ONE APPLICATION MAY BE MADE FOR THE BENEFIT OF ANY PERSON IN THE UK PUBLIC OFFER.

Any application which breaches this rule is a "multiple application".

Multiple applications and suspected multiple applications are liable to be rejected.

Criminal proceedings may be instituted against anyone knowingly making or authorising a multiple application for their own benefit, or that of any other person, either solely or jointly with other persons. Under the terms and conditions of application, an applicant can be required to disclose to HM Treasury, its agents and members of the police forces any information about the application which may be requested.

Personal Equity Plans

An individual may subscribe up to £6,000 to a general PEP during the income tax year 1991/92 (which ends on 5th April, 1992). Where a PEP manager acquires Shares under the Combined Offers for the benefit of such an individual, only the amount subscribed in respect of the first instalment will be taken into account for this purpose. The amount subscribed in respect of the second and final instalments will be taken into account for the purposes of the subscription limit for the income tax year 1992/93 (assuming it is subscribed in that year). If the full amount of these instalments cannot be met out of the maximum permitted cash subscriptions (and any other cash held within the PEP), some of the Shares would have to be withdrawn from the PEP prior to payment of the relevant instalment. Alternatively, some of the Shares could be sold by the PEP manager, with the proceeds of sale being used to pay the instalments on the balance of the Shares within the PEP.

Instead of Shares being acquired by a PEP manager on behalf of an individual, and subject to the normal limits on, and conditions for, transfers into a PEP, Shares acquired by individuals under the Combined Offers (but not otherwise) are eligible for transfer by those individuals to PEP managers prepared to accept them within 42 days of their allocation. Following the procedures described under "Disposals of Shares" on page 37, such transfers can be effected without the loss of any incentives to which the transferors might be entitled.

It is expected that from 1st January, 1992 it will be possible for an individual to subscribe up to £3,000 in an income tax year to a single company PEP, in addition or as an alternative to investing up to £6,000 in a general PEP in the same income tax year. Therefore, while it will not be possible for a single company PEP manager to apply in the Combined Offers to acquire Shares on behalf of an investor, an individual who has acquired Shares in the Combined Offers should be able to transfer them into a single company PEP within 42 days of allocation.

An allocation of bonus Shares in respect of Shares held within a PEP can be taken within the PEP and does not count towards the annual subscription limit in the relevant tax year, which will be 1994/95. Where an instalment in respect of Shares held within a PEP is paid net of the Instalment Discount, only the net amount subscribed will count towards the relevant subscription limit.

Payment

The right is reserved to present for payment all cheques or bankers drafts received but this will be avoided where practicable in respect of applications for which it is not expected to make an allocation, unless they are, or are suspected to be, multiple applications. All cheques must be honoured on first presentation.

Your attention is drawn to the arrangements for payment by instalments. Under the Instalment Agreement (which is

summarised in paragraph 8 of Part 10), you will be liable for the second instalment when it falls due on 7th July, 1992 and for the final instalment when it falls due on 2nd March, 1993 in respect of entitlements to Shares you hold at the relevant time; and if you sell your entitlements to Shares, the purchaser will (once the transfer has been registered) become liable for any further instalments due.

You will be sent reminders in advance of the dates when the second and final instalments become payable and these will be sent to your address on the register at the time. You will be liable to pay these instalments even if you do not receive these reminders. You should therefore notify the registrar of any change of address promptly, following the instructions on the Interim Certificate.

Allocations

The basis of allocation of the Shares will be announced prior to the commencement of dealings in Interim Rights. If your application is successful in whole or in part, you will be sent an Interim Certificate for the Shares allocated to you. If there is a heavy demand for Shares, you may be allocated fewer Shares than you applied for or, in some cases, none at all. If no part of your application is accepted, all money paid on application will be returned without interest. If your application is accepted in part, you will receive (without interest) a refund cheque for the balance of the money paid on application.

The right is reserved to reject, in whole or in part, any application. In any event, your application will be rejected if and to the extent that HM Treasury believes that your application (if accepted in full) would, together with any other applications in the UK Public Offer or purchases in the International Tender Offer, result in you having an interest in Shares representing 15 per cent. or more of the issued share capital of the Company.

Overseas applicants

No person receiving a copy of this document and/or an application form in any territory other than the UK, the Channel Islands or the Isle of Man may treat the same as constituting an invitation or offer to him, nor should he in any event use such application form unless, in the relevant territory, such an invitation or offer could lawfully be made to him or such form could lawfully be used without contravention by any person of any registration or other regulatory or legal requirements. It is the responsibility of any person outside the UK receiving a copy of this document and/or an application form and wishing to make an application hereunder to satisfy himself as to full observance of the laws of any relevant territory in connection therewith, including the obtaining of requisite governmental or other consents or the observance of any other requisite formalities and the payment of any issue, transfer or other taxes due in such territory.

No application may be made on any application form by or on behalf of a Canadian person. A "Canadian person" means (i) any individual resident in Canada, (ii) any corporation, partnership, firm, investment fund, pension fund, estate, trust or other entity incorporated, established or organised under or governed by the laws of Canada or any political sub-division thereof (except for a branch of a Canadian corporation, partnership or firm located in the UK or a Canadian investment fund, pension fund, estate or trust investment assets of which are managed on a discretionary basis by a person otherwise entitled to make an application under the UK Public Offer), (iii) any branch in Canada of a corporation, partnership or

firm incorporated or established outside Canada and (iv) any individual resident outside, or any investment fund, pension fund, estate or trust organised under or governed by the laws of a jurisdiction outside, Canada the investment assets of whom or which are managed on a discretionary basis by a Canadian person described in (i), (ii) or (iii).

No application may be made on any application form by or on behalf of any individual, corporation or entity resident in Japan.

No application may be made on any application form by a person in the United States.

Applicants in certain overseas jurisdictions are not able to select a Share Shop under local laws and regulations. In such cases, it has been arranged that they should nevertheless be given preference in allocation as if they had selected a Share Shop.

UK stamp duty and stamp duty reserve tax

Successful applicants under the UK Public Offer (other than as indicated below) need take no action in respect of stamp duty or stamp duty reserve tax on the purchase of the Shares for which their applications are accepted.

Under the Instalment Agreement, HM Treasury has agreed to pay all stamp duty and stamp duty reserve tax in respect of the transfer of Shares by the Nominee or any successor nominee pursuant to the Instalment Agreement to the persons entitled to those Shares following payment of the final instalment.

Persons connected with depositary receipt arrangements and clearance services are subject to different rules from those stated above. Issuers of depositary receipts and providers of clearance services and the nominees or agents of such persons must themselves account for all stamp duty and stamp duty reserve tax in respect of or resulting from acceptance of their applications or the issue or transfer of Shares to them (except that HM Treasury will pay the stamp duty reserve tax due in respect of the first instalment on Shares taken in the form of ADSs through the Canadian and US Managers in the International Tender Offer and except on a transfer of Shares pursuant to the Instalment Agreement following payment of the final instalment).

HM Government has said that its intention is that the abolition of stamp duty on securities and stamp duty reserve tax will be fixed to coincide as closely as possible with the introduction of TAURUS. The abolition date will be fixed in due course by means of a Treasury Order. The London Stock Exchange has said that the earliest date for the introduction of TAURUS is April 1993.

THE UK RETAIL TENDER

As part of the International Tender Offer, S.G. Warburg Securities, as a Manager for the UK and Republic of Ireland regional syndicate, has invited certain member firms of the London Stock Exchange to submit bids on behalf of such firms' clients who are Qualifying Clients. A bid by a member firm on behalf of a Qualifying Client in the International Tender Offer may be made in addition to an application made for the benefit of that person in the UK Public Offer. Bids on behalf of an individual in the International Tender Offer must be for a minimum of 2,000 Shares, in multiples of 100 Shares. Incentives are not available in relation to Shares purchased in the International Tender Offer.

S.G. Warburg Securities will reallocate to such member firms, out of commissions payable to S.G. Warburg Securities by HM Treasury in respect of Shares allocated to Qualifying Clients of such firms, a selling commission equal to 1/2 per cent. of the value at the International Tender Offer Price of such Shares.

DEALINGS

Timetable

It is expected that dealings in the Interim Rights will commence on the London Stock Exchange at 8.30 a.m. on 9th December, 1991 and that, circumstances permitting, Interim Certificates will be sent to applicants allocated Shares under the UK Public Offer on or before 18th December, 1991. If circumstances require a revised posting plan, an announcement will be made. **Applicants who deal before receipt of an Interim Certificate will do so at the risk of selling Shares for which they have not received an allocation.**

The UK Public Offer is not conditional on dealings commencing in the Interim Rights.

It is proposed that settlement of dealings (including initial dealings) on the London Stock Exchange will be effected in TALISMAN (the London Stock Exchange's centralised computer settlement system) and that dealings during the three dealing periods set out below will be for settlement on the deferred settlement dates indicated. From 13th January, 1992, dealings will be for normal account settlement (the usual settlement basis for dealings on the London Stock Exchange).

Dealing period	Settlement date
9th December - 13th December, 1991	14th January, 1992
16th December - 27th December, 1991	21st January, 1992
30th December, 1991 - 10th January, 1992	28th January, 1992
From 13th January, 1992	Normal account settlement

The expected timetable of dealing and settlement on the London Stock Exchange following the UK Public Offer is as follows:

8.30 a.m. on 9th December, 1991	Dealings commence.
On or before 18th December, 1991	First instalment paid. Interim Certificates posted.
29th May, 1992	Last day for dealings to be settled by delivery of first instalment paid Interim Certificates. Bargains made after this date will be settled by delivery of combined first instalment paid Interim Certificates and call notices to pay the second instalment.
4th June, 1992	Record date for preparation of combined first instalment paid Interim Certificates and call notices to pay the second instalment.
15th June, 1992	Combined first instalment paid Interim Certificates and call notices to pay the second instalment posted.
26th June, 1992	Last day for dealings first instalment paid. Bargains made after this date will be settled by delivery of second instalment paid Interim Certificates.
7th July, 1992	Payment of the second instalment to be made for value by 3.00 p.m. on this date.
15th July, 1992	Last day for posting second instalment paid Interim Certificates.

It is expected that dealings on the London Stock Exchange will continue to be settled by delivery of second instalment paid Interim Certificates until shortly before the record date for the preparation of combined second instalment paid Interim Certificates and call notices to pay the final instalment (due by 2nd March, 1993). Further details relating to expected dealing arrangements over this period until definitive share certificates are available will be issued in due course.

After the record date for preparation of combined instalment paid Interim Certificates and call notices for the second or final instalment, transfers of Interim Rights which are not in favour of SEPN Limited (or another Recognised Person as defined in the Instalment Agreement) will not be accepted for registration unless accompanied by either an Interim Certificate evidencing payment of the instalment or a combined Interim Certificate and call notice for the relevant instalment and payment of it together with, if demanded, default interest and other such amounts as may be determined in accordance with the provisions of the Instalment Agreement if late payment is accepted.

It is expected that definitive share certificates will be sent to shareholders approximately eight days after the date of payment of the final instalment, provided that they pay it in accordance with the call notice for the final instalment and that value is received by 3.00 p.m. on that date.

DEFINITIONS OF TERMS USED IN PART 11

References to **PEPs** are to personal equity plans within the meaning of the Regulations made under section 333 of the Income and Corporation Taxes Act 1988 and section 149D of the Capital Gains Tax Act 1979 from time to time including the amending Regulations introducing (inter alia) single company PEPs which are expected to come into force on 1st January, 1992.

References to **Approved Managers** are to persons applying for or holding Shares on behalf of clients and who are:

- (a) members of The Securities and Futures Authority Limited, Investment Management Regulatory Organisation Limited or the Financial Intermediaries, Managers and Brokers Regulatory Association; or
- (b) member firms of the London Stock Exchange who are situated in the Channel Islands, the Isle of Man or Ireland; or
- (c) PEP managers; or
- (d) such other persons as HM Treasury may designate as Approved Managers from time to time.

References to **incentives, Instalment Discount and Share Bonus** have the meanings set out under "Incentives" on page 37.

References to **Shares** also include, in this Part, references to Interim Rights as defined in paragraph 8 of Part 10 of this document.

References to the **agent bank** are to the Agent Bank as defined in paragraph 8 of Part 10 of this document.

References to **duly apply** include, where relevant to any particular application form, your satisfying the eligibility requirements set out in this Part 11 of this document.

References to persons **holding** Shares are (save in the definition of qualifying BT shareholders and qualifying

shareholders below) to such persons being the beneficial owners of those Shares and either the registered holders thereof in the relevant share register or recorded as the persons entitled thereto in the books of the nominee or other person holding those Shares for their benefit (entitlements at any qualifying date being determined by reference to such register or such books, as the case may be, as at 3.00 p.m. on that date).

Multiple applications are as defined under "No multiple applications" on page 40.

References to a **register** or **share register** include references to the registers of the agent bank or of the Company, as the case may be.

References to a **registrar** are to the agent bank or to such person as the Company may appoint as registrar from time to time or, if no such person is appointed, to the Company itself.

References to **UK Clearing Banks, Selling Agents and Financial Intermediaries** are to the persons described as such in paragraph 7 of Part 10 of this document.

References to **qualifying BT shareholders** or **qualifying shareholders** are to individuals in the UK and certain overseas jurisdictions holding Shares on the Company register at the close of business on 30th July, 1991 either in their own name or as the underlying beneficiary of a nominee holding and to participants in the BT Employee Share Ownership Scheme at that time.

References to **eligible BT employees** or **eligible employees** are to employees at the close of business on 25th October, 1991 of the Company, BT Repair Services Ltd, BT Consumer Electronics Ltd, British Telecom (CBP) Ltd, BT (Marine) Ltd, Manx Telecom Ltd or BT Citycall Ltd in the UK and certain overseas jurisdictions.

References to **registrations** and **selections** exclude registrations and selections which were made but subsequently altered or deleted.

References to **Authorised Attorneys** are to persons who are: (a) solicitors admitted to practise in the United Kingdom or the Republic of Ireland and solicitors or advocates admitted to practise in the Channel Islands or the Isle of Man acting as attorneys on behalf of clients; (b) acting as attorneys in respect of applications on Employee application forms, insofar as they execute such applications; and (c) such other persons as HM Treasury may designate as Authorised Attorneys from time to time.

References to a **Qualifying Client** are to a client of a London Stock Exchange member firm who or which is:

- (a) an individual who is a resident of the UK, the Channel Islands, the Isle of Man or the Republic of Ireland (the "British Isles"); or
- (b) an individual who is a resident of any country outside the British Isles but whose funds are managed on a discretionary basis by a person located in the British Isles; or
- (c) a trust the beneficiaries of which are individuals each of which would be a Qualifying Client or the funds of which are managed on a discretionary basis by a person located in the British Isles; or
- (d) a PEP manager applying in respect of a PEP investor (in accordance with the applicable rules relating to PEPs)

and includes a parent, grandparent or guardian who is a resident of the British Isles bidding on behalf of a person under the age of majority who is a Qualifying Client.

TERMS AND CONDITIONS OF THE SHARE DEALING SERVICE

PART 12

INTRODUCTION

1. These terms and conditions set out the terms on which the Share Shops will provide their services to you in relation to shares.
2. The Share Shops' services do not extend to giving you advice and you will be an execution-only customer in relation to all transactions.
3. If you have any other agreement or arrangement with any Share Shop under which that Share Shop may provide share dealing services for you, and you do not specify that any such services provided for you by that Share Shop are to be governed by that agreement or arrangement, such services will be governed by these terms and conditions.
4. By applying for shares in the Company in the UK Public Offer on a Share Shop application form, a Shareholder Share Shop application form or an Employee application form (as these terms are defined in Part 13 of the Prospectus) and, in the case of an Employee application form, validly selecting a Share Shop on that form, you also offer to enter into an agreement with each Share Shop on these terms and conditions. The acceptance by HM Treasury of your application on such a form constitutes acceptance on behalf of each Share Shop of your offer to enter into such an agreement. However, HM Treasury is not a party to such agreement.

DEALINGS

5. From the date on which you receive your Interim Certificate until 9th March, 1992 (inclusive) you can instruct any Share Shop on two occasions to buy shares and on two occasions to sell shares. To the extent specified in the Leaflets, you can sell shares for more than one member of the same household living at the same address. Unless otherwise specified in the Leaflets, only a single dealing commission will be payable in relation to each set of instructions given (based on the total value of the shares sold).
6. The procedure in relation to the Share Shop to which you give instructions is set out in its Leaflet. Each Share Shop agrees to send you a copy of the Leaflet published by it on request.

(i) Sales

- (a) The Leaflet explains whether the Share Shop will accept instructions in writing, by telephone or in person. If you give instructions in person, you may, if specified in the Leaflet, be required to provide proof of your identity and address.
- (b) The Leaflet explains whether the Share Shop will at, before or after the time you place the instructions require you to:—
 - deliver to it an Interim Certificate or share certificate (and a signed stock transfer form) for the shares to be sold;
 - prove to it that you have not already used up your rights to sell on two occasions on these terms and conditions: production to the Share Shop of a Sell Coupon in your name will be regarded as such proof.
- (c) If specified in the Leaflet, the Interim Certificate or share certificate you deliver must be in your name.

- (d) If the Share Shop requires but does not receive an Interim Certificate or share certificate in your name (and a signed stock transfer form) for the shares sold by the relevant settlement day, it may, without instructions from you, execute an offsetting transaction for you at your expense.
- (e) Following market settlement, or earlier if specified in the Leaflet, the Share Shop will (unless you have made other arrangements with it) send you a cheque for the net proceeds of sale, after deduction of the dealing charges and any other costs. If the sale did not relate to all the shares represented by the Interim Certificate or share certificate you delivered, the Share Shop will forward to you an Interim Certificate or share certificate representing the balance as soon as reasonably practicable after it receives it.
- (f) If after the sale has taken place you receive any dividends, capital distributions or other rights in respect of the shares sold (the ex-dividend date for which was after the sale took place) you must send them to the Share Shop, which will forward them to the purchaser.

(ii) Purchases

- (a) The Leaflet explains whether the Share Shop will accept instructions in writing, by telephone or in person. If you give instructions in person, you may, if specified in the Leaflet, be required to provide proof of your identity and address.
 - (b) The Leaflet explains whether the Share Shop will at, before or after the time you place the instructions require you to:—
 - pay to it the purchase price (plus dealing charges, stamp duty or stamp duty reserve tax and any other costs) in cleared funds or by cheque or postal order or (if you have made previous arrangements with the Share Shop for this) by direct debit from your bank account;
 - prove to it that you have not already used up your rights to buy on two occasions on these terms and conditions: production to the Share Shop of a Buy Coupon in your name will be regarded as such proof.
 - (c) If the Share Shop requires but does not receive cleared funds by the relevant settlement day, it may, without instructions from you, execute an offsetting transaction for you and at your expense.
 - (d) Subject to paragraph (c) above, following market settlement the Share Shop will deliver the Interim Certificate or share certificate relating to your purchase to you.
7. Instructions once given may not be revoked and will be implemented as soon as reasonably practicable unless your instructions relate to such a small number of shares that it would be unreasonable to expect the relevant Share Shop to effect a transaction for you in that quantity. In that event, the Share Shop will implement your instructions as soon as reasonably practicable after it has received instructions from its customers to sell or purchase (as the case may be) sufficient shares. If you give instructions to sell or purchase more than one type of share each order will be treated separately.
 8. You will not be able to place a limit on the price at which the shares to which your instructions relate must be sold or purchased: the transaction will be effected at the best price reasonably available when your instructions are implemented.

9. A Share Shop may refuse to accept any instructions which are given from outside the United Kingdom if this is necessary to avoid it breaching any laws or regulations in the country from which the instructions are given.
10. If you applied for shares in the Company as nominee for another person, only you may give instructions under these terms and conditions. However, if you prove that person's identity to the reasonable satisfaction of a Share Shop he/she may give instructions to that Share Shop instead of you. In this event, (i) unless inconsistent with the context, references in these terms and conditions to "you" and "your" are to that person, except in relation to determining the number of times he/she may sell or purchase shares on these terms and conditions (where account will be taken of any sales or purchases already effected on your and/or his/her instructions) and (ii) the nominee as well as such other person, gives the indemnity contained in the second sentence of paragraph 17.
11. A Share Shop may, without prior reference to you:—
 - (i) effect any transaction with itself or any Connected Company as principal or as agent for you and/or the counterparty: the Share Shop and any Connected Company may retain any commissions or mark up or mark down derived from transactions carried out for you;
 - (ii) aggregate your orders with those of other customers (including persons connected with the Share Shop): aggregation may operate on some occasions to your advantage and on others to your disadvantage;
 - (iii) to the extent specified in its Leaflet, only execute orders placed by you at certain times on particular days.

CASH AND SHARES

12. Money received for your account will be dealt with in accordance with the Financial Regulations of the Share Shop's regulatory body and held by the Share Shop or as referred to in the Schedule.
13. Each Share Shop accepts responsibility for the safe custody of any money or Interim Certificates or share certificates held by or on behalf of it for you.
14. No Share Shop will lend your Interim Certificates or share certificates to a third party or will borrow any money on your behalf against the security of these documents.

CHARGES

15. You will pay dealing commission at the rates specified in the Leaflet published by the Share Shop to which you give instructions on all transactions effected by that Share Shop for you.
16. You will also pay all taxes, duties and Stock Exchange charges attributable to the purchase and sale of shares for you.

LIABILITY AND INDEMNITY

17. No Share Shop will be liable to you for any expense or liability suffered or incurred by you in connection with these terms and conditions unless due to its wilful default, fraud or negligence or to a breach of the Financial Services Act 1986 or the rules or regulations made under it or the rules of the regulatory body set out against its name in the Schedule. You will indemnify each Share Shop to which

you give instructions against any liability suffered or expense incurred by it as a direct result of these terms and conditions (apart from expenses other than dealing commissions, taxes and duties ordinarily incurred in the course of providing its services), unless due to its wilful default, fraud or negligence or to a breach of the Financial Services Act 1986 or the rules or regulations made under it or the rules of the regulatory body set out against its name in the Schedule.

CUSTOMER INFORMATION

18. You will supply in writing to each Share Shop to which you give instructions all information needed by it to comply with its legal or regulatory obligations which it reasonably requests from you as soon as reasonably practicable. The Share Shops may disclose any information provided by you to any of their Connected Companies, HM Treasury, their professional advisers or as required by law or regulation. They may also disclose such information to any person whose responsibilities include the investigation or prosecution of any alleged criminal offence. You warrant that all information is and will be, to the best of your knowledge and belief, correct when supplied and that you will notify the relevant Share Shops of material changes.
19. Until 9th March, 1992, any information about you obtained under these terms and conditions may be used to identify other investment management or share dealing services which may be of interest to you and may be disclosed by the Share Shop to which your application related (or, if you applied on an Employee application form, the Share Shop you selected on that form) to a Connected Company for such purposes. Except as provided in paragraph 18, no such information will be disclosed to any other person. That Share Shop and any Connected Company may from time to time provide you with information (whether or not specifically requested by you) about other products and services offered by that Share Shop or any Connected Company.

GENERAL

20. These terms and conditions are personal to you and may not be assigned to any other person.
21. A Share Shop may refuse to accept instructions unless and until the UK Public Offer becomes unconditional in accordance with paragraph 6 of the terms and conditions of application set out in Part 13 of the Prospectus (although if instructions are accepted these terms and conditions will apply).
22. If another person signed an application form for shares in the Company on your behalf, that person warrants that he/she had authority to do so. If he/she is not an authorised official of a branch of a UK Clearing Bank or a Selling Agent or Financial Intermediary (as these terms are described in paragraph 7 of Part 10 of the Prospectus), he/she also warrants that this authority was vested in him/her by virtue of a power of attorney which (or a copy of which certified by a solicitor) accompanied the application.
23. A Share Shop may delegate certain services to be provided under these terms and conditions to another person (including the holding for you of Interim Certificates or share certificates, if specified in the Schedule). However, if it does so, the Share Shop will remain liable for any acts or omissions of the delegate as if they had been its own.

24. No Share Shop will telephone you or call on you in person without your express invitation other than to discuss any problem or other matter arising out of any instructions you have given.
25. Each of the Share Shops is regulated in the conduct of investment business either by membership of, or authorisation by, the regulatory body set out in the Schedule or by virtue of being an appointed representative of the person referred to in the Schedule (which is a member of, or authorised by, the regulatory body referred to in the Schedule).
26. If you have any complaints about the services provided by any Share Shop you should write to that Share Shop's Compliance Officer. You may also complain direct to that Share Shop's regulatory body (or, if it is an appointed representative, its principal's regulatory body). A statement explaining your rights to compensation in the event of a particular Share Shop being unable to meet its liabilities to you is available from that Share Shop on request.
27. These terms and conditions are governed by English law. All sales and purchases will be effected on (or in accordance with the rules of) the London Stock Exchange or another recognised investment exchange (as defined in the Financial Services Act 1986) and are subject to all other applicable laws and regulations. In the event of any conflict between these terms and conditions and any such rules, laws and regulations, the latter will prevail. For the benefit of each of the Share Shops, you irrevocably submit to the jurisdiction of the English courts, although this does not prevent any action being taken against you in any other jurisdiction.
28. All communications by a Share Shop to you will be sent to the latest address notified by you to that Share Shop. All communications by you to a Share Shop must be made in writing or (to the extent specified in the Leaflets) by telephone to that Share Shop at its address set out in the Schedule or as specified in its Leaflet.
29. These terms and conditions will be of no force or effect after 9th March, 1992, except in relation to instructions for sales and purchases which are given on or before that date. This does not, however, affect any liability which might arise as a result of a breach of these terms and conditions.
30. If HM Treasury terminates your agreement to purchase shares in the Company, whether as a result of your failing to pay the first instalment in the UK Public Offer by the due date or otherwise, these terms and conditions will terminate automatically, except in relation to instructions for sales and purchases which are given before the termination takes place, and your Coupons may not be used. This does not, however, affect any liability which might arise as a result of a breach of these terms and conditions.
31. Except in relation to the matters expressly referred to above, these terms and conditions set out the entire agreement between you and the Share Shops in relation to any services which may be provided by them on the terms and conditions, to the exclusion of anything contained in the Leaflets or any other document. Subject to paragraph 27, in the event of any conflict between the Leaflets or any other document and these terms and conditions, the latter will prevail.
32. Unless inconsistent with the context, in these terms and conditions the following expressions have the following meanings:—

- | | |
|------------------------|---|
| "Buy Coupon" | one of the two coupons sent to successful applicants in the UK Public Offer who selected a Share Shop evidencing their entitlement to purchase shares; |
| the "Company" | British Telecommunications public limited company; |
| "Connected Company" | in relation to a Share Shop, any direct or indirect holding company of that Share Shop or any subsidiary of such a holding company; |
| "Instalment Agreement" | the Instalment Agreement dated 21st November, 1991 between HM Treasury, the Company and others; |
| "Interim Rights" | Interim Rights (as defined in the Instalment Agreement and described in paragraph 8 of Part 10 of the Prospectus) in relation to shares in the Company; |
| "Interim Certificate" | a certificate evidencing Interim Rights; |
| the "Leaflets" | the leaflets published by the Share Shops and sent to successful applicants in the UK Public Offer who selected a Share Shop with their Interim Certificate and the leaflet "Share Shops and the BT Share Offer" published by S.G. Warburg & Co. Ltd. (and "the Leaflet" means the Leaflet published by the relevant Share Shop); |
| the "Prospectus" | the prospectus dated 21st November, 1991 issued in connection with the UK Public Offer; |
| "Sell Coupon" | one of the two coupons sent to successful applicants in the UK Public Offer who selected a Share Shop evidencing their entitlement to sell shares; |
| "shares" | the shares which the Share Shop to which you give any instructions has agreed to buy and sell, details of which are contained in the Leaflet published by it, and Interim Rights; |
| the "Share Shops" | Abbey National plc, the Governor and Company of the Bank of Scotland, Barclays Bank PLC, Lloyds Bank Plc, Midland Bank plc, National Westminster Bank PLC, Norwich and Peterborough Building Society and Sharelink Limited; |
| "UK Public Offer" | the offer for sale to the public in the UK of fully paid ordinary shares of 25 pence each in the Company made by S.G. Warburg & Co. Ltd. on behalf of HM Treasury. |

SCHEDULE

Name of Share Shop	Address	Regulatory body/ name of principal	Holder of Interim Certificates or share certificates (if not the Share Shop)	Holder of your money (if not the Share Shop)
Abbey National plc	Abbey House, Baker Street, London NW1 6XL.	SIB	Sharelink Limited, which is not associated with such Share Shop.	Sharelink Limited.
Bank of Scotland	2 Robertson Avenue, Edinburgh EH11 1PZ.	IMRO	Sharelink Limited, which is not associated with such Share Shop.	Sharelink Limited.
Barclays Bank PLC	2nd Floor, 21 St Thomas Street, London SE1 9RY.	IMRO		Barclays Stockbrokers Limited, which is associated with such Share Shop.
Lloyds Bank Plc	PO Box 1000, 2nd Floor, Bolsa House, 80 Cheapside, London EC2V 6EE.	IMRO	Lloyds Bank Stockbrokers Limited, which is associated with such Share Shop.	Lloyds Bank Stockbrokers Limited.
Midland Bank plc	2nd Floor, Suffolk House, 5 Laurence Pountney Hill, London EC4R 0EU.	IMRO	Midland Stockbrokers, which is associated with such Share Shop.	Midland Stockbrokers.
National Westminster Bank PLC	55 Mansell Street, London E1 8AN.	IMRO	NatWest Stockbrokers Limited, which is associated with such Share Shop.	NatWest Stockbrokers Limited.
Norwich and Peterborough Building Society	Peterborough Business Park, Lynch Wood, Peterborough PE2 0FZ.	Appointed representative of Waters Lunnis & Co. Limited (member of the SFA)	Waters Lunnis & Co. Limited, which is associated with such Share Shop.	Waters Lunnis & Co. Limited.
Sharelink Limited	Cannon House, 24 The Priory Queensway, Birmingham B4 6BS.	SFA		

Note: Sharelink Limited, Barclays Stockbrokers Limited, Lloyds Bank Stockbrokers Limited, Midland Stockbrokers, NatWest Stockbrokers Limited and Waters Lunnis & Co. Limited are members of the SFA.

TERMS AND CONDITIONS OF APPLICATION

INTRODUCTION

If you apply for BT Shares in the UK Public Offer you will be agreeing with HM Treasury, S.G. Warburg & Co. Ltd., Lloyds Bank Plc and the Company as set out below.

OFFER TO PURCHASE SHARES

- You offer to purchase from HM Treasury at the UK Public Offer Price the number of Shares indicated in your application (or any smaller number in respect of which your application is accepted) in the Company on these terms and conditions.
- You agree that your offer cannot be revoked prior to 8th January, 1992 and promise that the cheque or draft accompanying your application will be honoured on first presentation. HM Treasury agrees that it will not, prior to 8th January, 1992, offer any Shares to any person other than by means of one of the procedures referred to in the Prospectus. This paragraph 2 constitutes a collateral contract between you and HM Treasury. It becomes binding when your application is posted to, or (if delivered) is received by, a receiving bank or it is posted to an address representing, or (if delivered) is received by, a Share Shop which has agreed, in the Share Dealing and Application Agreement, to provide a collection service in relation to application forms, or it is received by a receiving bank.

- If your application form is not completed correctly or is amended, or if the accompanying cheque or draft is for the wrong amount, it may still be treated as valid. In these circumstances HM Treasury's (or its agent's) decision as to whether to treat your application as valid, and how to construe, amend or complete it, shall be final. You will not, however, be treated as having offered to purchase more Shares than is indicated in your application.
- Any application may be rejected in whole or in part.

ACCEPTANCE OF YOUR OFFER

- HM Treasury may accept your offer to purchase (if your application is received, valid, processed and not rejected) either:—
 - by notifying the London Stock Exchange of the basis of allocation (in which case the acceptance will be on that basis); or
 - by notifying acceptance to the receiving bank which processed your application.

The acceptance may be of the whole or any part of your offer and, accordingly, the number of Shares you offer to purchase may be scaled down.
- If HM Treasury accepts your offer to purchase (in whole or in part), there will be a binding contract under which you will be required to purchase the Shares in respect of

which your offer has been accepted if, prior to 8th January, 1992, the International Tender Offer Price is determined by HM Treasury and accepted by the Managers by execution and delivery of the Purchase Memorandum contemplated by the International Tender Offer Agreement.

7. You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance. This does not affect any other rights you may have.

PAYMENT FOR THE SHARES

8. You undertake to pay the purchase price for the Shares in respect of which your offer is accepted in three instalments as described in the Prospectus. The cheque or bankers draft accompanying your application may be presented for payment before acceptance of your offer, but this will not constitute acceptance of your offer, either in whole or in part. The proceeds of this presentation will be held pending acceptance and, if your offer is accepted, and the condition in paragraph 6 above is satisfied, will be applied in discharging the first instalment, which is due upon acceptance. The second instalment is due by 7th July, 1992 and the final instalment by 2nd March, 1993 (and, in each case, for value by 3.00 p.m. on that date). Following payment in full of the purchase price, HM Treasury will arrange for the Shares which you have agreed to purchase to be transferred to you. This transfer will not, however, occur before 9th February, 1993.
9. If your application is invalid, is rejected or is not accepted in full, or if the circumstances described in paragraph 6 above do not occur prior to 8th January, 1992, any proceeds of the cheque or draft accompanying your application (or, if your application is accepted in part, the unused balance of those proceeds) will be refunded to you without interest.
10. HM Treasury may require you to pay interest or its other resulting costs (or both) if the cheque or draft accompanying your application is not honoured on first presentation. If you are required to pay interest, you will pay the amount determined by HM Treasury or its agents to be the interest on the amount of the cheque or draft from the date of acceptance until the date of receipt of cleared funds. The rate of interest will be the then published bank base rate of a clearing bank selected by HM Treasury plus 2 per cent. per annum. HM Treasury may apply part of any payment received from you in paying this interest or other costs. In this event (or if the late payment is for other reasons insufficient) the remainder of the payment will be applied in paying the first instalment in respect of as many Shares as possible. Any balance of the payment remaining will be held by HM Treasury on your behalf and may be applied in paying any other amounts due to HM Treasury. If HM Treasury terminates the agreement to purchase Shares under paragraph 11 below and no other amounts remain due to HM Treasury, the remaining balance will be returned to you (without interest).
11. If your cheque or bankers draft is not honoured on first presentation then, at any time until HM Treasury has received, in cleared funds, the first instalment in respect of a Share, HM Treasury may terminate the agreement to purchase that Share. This termination will be effected by notice being despatched to you. In the event of termination you will pay to HM Treasury, on demand, such amount as may be certified on its behalf as being necessary to compensate HM Treasury for the losses, costs and expenses

incurred or expected to be incurred as a result of the cheque or draft not being honoured on first presentation and as a result of termination (taking into account any amounts paid under paragraph 10 above and any profit gained on the resale of the Share).

12. If you receive any Interim Certificate in respect of the Shares you have agreed to purchase before HM Treasury has received, in cleared funds, the first instalment in respect of those Shares, you shall forthwith return it to the receiving bank from which it was sent.

INSTALMENT AGREEMENT

13. Upon receipt by HM Treasury in cleared funds of the first instalment in respect of any Share for which your offer to purchase has been accepted, you will become a party to, and will be bound by, the Instalment Agreement in respect of that Share. Accordingly, from that date you will be entitled to the benefit of rights attached to that Share in accordance with the terms of the Instalment Agreement. Until that date HM Treasury will remain entitled to the benefit of all rights attached to that Share. Upon your becoming a party to the Instalment Agreement in respect of any Share, the obligation to pay the second and final instalments in respect of that Share, and the obligation to transfer Shares to you, contained in paragraph 8 above, will be replaced by the corresponding obligations in the Instalment Agreement. If, at the date you become a party to the Instalment Agreement, the second or final instalment (or both) has already fallen due and has not been paid, you will be obliged to pay that instalment or those instalments in accordance with the terms of the Instalment Agreement as if you were a Purchaser (as defined in the Instalment Agreement) on the due date for that instalment.

SHARE SHOPS

14. If you apply for Shares in the UK Public Offer on a Share Shop application form, on a Shareholder Share Shop application form or on an Employee application form on which you have selected a Share Shop, your offer to purchase Shares from HM Treasury shall constitute an offer to each of the Share Shops to enter into an agreement with it on the Terms and Conditions of the Share Dealing Service set out in Part 12.
15. Acceptance by HM Treasury (in whole or in part) of your offer under paragraph 5 will also constitute acceptance by each Share Shop of the offer made by you to it pursuant to paragraph 14 so that there will be a binding contract between you and each of the Share Shops if, prior to 8th January, 1992, the condition in paragraph 6 is satisfied.

INCENTIVES

16. If you are eligible and your offer to purchase Shares is accepted, you will be entitled to receive any incentive you may have elected to receive in your application. This entitlement is governed by, and you must comply with, the requirements set out, or referred to, in Part 11.

WARRANTIES

17. You warrant that:—
 - (i) You are not under the age of majority (18 years of age in the UK) on the date of your application.
 - (ii) You are not in the United States and you are not, nor are you applying on behalf of, a Canadian person (as defined

in Part 11) or an individual, corporation or entity resident in Japan.

- (iii) If your application, together with all other applications in the UK Public Offer in which you have an interest or in which any person on whose behalf you are applying has an interest, were accepted in full and, following any agreement by you or any such other person to purchase Shares in the International Tender Offer, taking account of the interests which you or any such other person would have by virtue of such agreement, neither you nor any such person would have an interest (as defined in Article 37 of the Articles of Association of the Company) in shares representing 15 per cent. or more of the share capital of the Company.
- (iv) In making your application you are relying only on the Prospectus and not on any other information or representation concerning the Company or the Combined Offers or either of them. You agree that no person responsible for the Prospectus or any part of it will have any liability for any such other information or representation.
- (v) If the laws of any place outside the UK are applicable to your application, you have complied with all such laws and none of the parties mentioned in the Introduction to these terms and conditions will infringe any laws outside the UK as a result of the acceptance of your offer to purchase, any offer by you under paragraph 14, any acceptance of that offer under paragraph 15 or any actions arising from your rights and obligations under these terms and conditions, the Instalment Agreement, the Terms and Conditions of the Share Dealing Service (set out in Part 12) and the Memorandum and Articles of Association of the Company.
18. (i) If the person signing the application is not the applicant, that person warrants that he has authority to do so on behalf of the applicant and that, if that person is not an authorised official of a branch of a UK clearing bank or a Selling Agent or Financial Intermediary, this authority is vested in him by virtue of any power of attorney which (or a copy of which certified by a solicitor) accompanies the application and that (unless he is an Authorised Attorney) he is not signing as attorney more than five other applications in the UK Public Offer.
- (ii) If the applicant is a corporation, the person signing the application form warrants that he has authority to do so on behalf of the applicant.

SUPPLY AND DISCLOSURE OF INFORMATION

19. HM Treasury and its agents shall have full access to all information relating to, or deriving from, the cheque or draft accompanying your application, and its processing. If HM Treasury or its agents request any further information about your application you must promptly disclose it to them. Upon your becoming a party to the Instalment Agreement your name(s) will be placed on the Interim Rights Register and, if you pay the instalments and do not transfer those rights, subsequently on the Company's register of members. These registers are open to inspection by the public, who may take copies in return for a prescribed fee. The information supplied in, or in connection with, your application may also be disclosed to HM Government departments (and their agents) concerned with other privatisations and to HM Treasury and its agents and members of the police forces for compiling lists of, and otherwise taking action in respect of, suspected multiple applicants.

NO MULTIPLE APPLICATIONS

20. You warrant that the declarations on your application form are true and correct. If they are not, you may be making a multiple application. Any Interim Certificate or returned application monies relating to a person suspected of making a multiple application may be held (without interest) pending investigation.

MISCELLANEOUS

21. The rights and remedies of HM Treasury, S.G. Warburg & Co. Ltd., Lloyds Bank Plc and the Company under these terms and conditions are in addition to any rights and remedies which would otherwise be available to each of them, and the exercise or partial exercise of one will not prevent the exercise of others.
22. All documents and any returned monies will be sent at your risk. They may be sent by post to you at the address shown on the application form. Any cheque will be made payable to you (or the first person named in any joint application).
23. You agree to be bound by the Memorandum and Articles of Association of the Company once the Shares you have agreed to purchase have been transferred to you.
24. Your application, any acceptance of that application and the contract resulting therefrom will be governed by, and construed in accordance with, the laws of England. For the exclusive benefit of the parties mentioned in the Introduction to these terms and conditions and each of the Share Shops you irrevocably submit to the jurisdiction of the English courts in respect of these matters. This does not prevent an action being taken against you in any other jurisdiction.
25. Reference in these terms and conditions to the Prospectus is to the Prospectus dated 21st November, 1991 issued by S.G. Warburg & Co. Ltd. relating to the offer for sale in the UK of Shares on behalf of HM Treasury. In these terms and conditions the following words and expressions bear the following meanings: Share Shop application form, Shareholder Share Shop application form and Employee application form mean the respective forms to be sent, as described in Part 11, to the persons described under those headings in Part 11 and include, in the first two cases, other permitted application forms on which appropriate entries have been made selecting or recording the selection of a Share Shop and/or to receive or claim qualifying shareholder status; the Share Dealing and Application Agreement means the agreement dated 8th August, 1991 between HM Treasury and the Share Shops (as amended) relating to the special share dealing service referred to in the Prospectus; the Share Shops mean the eight organisations listed in Part 12; the Managers means the relevant managers referred to in paragraph 6(a) of Part 10; and references to a "Part" are to a Part of the Prospectus. Words defined in the Prospectus and not defined in these terms and conditions have the same meanings in these terms and conditions and in your application form and in the guide to the application form used by you as in the Prospectus. In the case of a joint application, references to you in these terms and conditions are to each of you and your liability is joint and several.
26. Neither S.G. Warburg & Co. Ltd. nor Lloyds Bank Plc will treat you as its customer by virtue of your making an application for Shares or by virtue of your offer to purchase being accepted. In particular, they will not owe you any duties or responsibilities concerning the price of the Shares or concerning the suitability of the Shares for you.

GUIDE TO COMPLETING THE PUBLIC APPLICATION FORM

1

Put in Box 1 your full name and address (please use BLOCK CAPITALS).

Applications may not be made by anyone aged under 18, but you may apply as a parent, grandparent or guardian of a child under 18 for the benefit of that child. To do this, you should write your own name and address in Box 1 and put the initials of the child in the designation box. If you make an application for a child in this way, you may also apply separately for your own benefit. Please note that the age of majority in Jersey is 20.

If you are applying for your own benefit, please leave the designation box blank.

If you are applying on behalf of a partnership, firm, trust, association, club or other unincorporated organisation, write your name in Box 1, put the initials of the organisation in the designation box and write the name of the organisation in the first line of the address.

If a corporation is applying, the full name of the corporation should be entered in Box 1.

2

Put in Box 2 (in figures) the number of Shares for which you wish to apply.

You may only apply for one of the numbers of Shares shown in the table below. Applications for any other number of Shares will be rejected.

Number of Shares for which you can apply	Amount you pay now at 110p per Share	Number of Shares for which you can apply	Amount you pay now at 110p per Share
100	£110	800	£880
200	£220	900	£990
300	£330	1,000	£1,100
400	£440	1,500	£1,650
500	£550	2,000	£2,200
600	£660	2,500	£2,750
700	£770	3,000	£3,300
Above 3,000 Shares, applications must be in the following denominations:			
Applications for		in multiples of	
3,000 to 5,000 Shares		1,000 Shares	
5,000 to 50,000 Shares		5,000 Shares	
50,000 to 100,000 Shares		10,000 Shares	
over 100,000 Shares		50,000 Shares	

3

Using the table above, put in Box 3 (in figures) the amount you pay now for the Shares applied for in Box 2.

Payment for Shares will be in three instalments. The first instalment of 110p per Share is payable now. The second instalment of 120p per Share is payable by 7th July, 1992 and the final instalment is payable by 2nd March, 1993. The amount of the final instalment will be set shortly after the end of the UK Public Offer as explained in Part 2 of the Prospectus and will appear on

4

the Interim Certificate. A reminder in respect of each instalment will be sent in plenty of time.

Sign and date the form in Box 4. Please read carefully the warning below and the declaration in Box 4 before signing.

WARNING

Only one application may be made in the UK Public Offer for the benefit of any person. Criminal proceedings may be instituted against anyone knowingly making or authorising more than one such application, whether solely or jointly with other persons, or anyone knowingly breaching the terms and conditions of application set out in the Prospectus. Your attention is drawn to Part 11 of the Prospectus and to paragraph 20 of the terms and conditions of application set out in the Prospectus.

If you are applying for the benefit of someone under the age of 18 (under 20 in Jersey), you, rather than that person, must sign the application form.

The application form may be signed by someone else on your behalf who is duly authorised to do so. In this case, the original of the relevant power of attorney (or a copy certified by a solicitor) must be enclosed unless the form is signed by a UK Clearing Bank, Selling Agent or Financial Intermediary in which case the signatory must state the capacity in which he or she signs.

Applications made by corporations, whether on their own behalf or on behalf of other persons, must be signed by a duly authorised official, whose representative capacity must be stated.

5

Attach your cheque to Box 5 with a pin. It should be for the exact amount you have put in Box 3.

No receipt will be issued.

You may pay for the Shares by personal cheque drawn on your bank or building society account. Alternatively, you may use a cheque or draft from your bank or building society (or a personal cheque drawn by someone else) but then you must write your full name and address on the back.

In each case the cheque must be drawn in sterling and bear a UK bank sort code number in the top right hand corner. It should be payable to "BT Share Offer" and crossed "Not Negotiable".

Any monies returned will be sent by cheque crossed "Not Negotiable A/C Payee Only" payable to the person named in Box 1.

6

You may apply to hold the Shares which you enter in Box 2 jointly with up to three other persons aged 18 or over (20 or over in Jersey). As joint applicants, they should complete and sign in Box 6. Before signing, they should read carefully the warning in Note 4 and the declaration in Box 4.

The form may be signed by an attorney or agent on behalf of the joint applicant(s), as described in Note 4.

You cannot either apply for an incentive or receive preference in allocation by using this form. If you are eligible to apply for an incentive and to receive preference in allocation, you should use your personalised application form.

HM Treasury is a registered data user under the Data Protection Act 1984 and your attention is drawn to paragraph 19 of the terms and conditions of application set out in the Prospectus dated 21st November, 1991.

PHOTOCOPIES OF APPLICATION FORMS WILL NOT BE ACCEPTED.



PUBLIC APPLICATION FORM

Before completing this form, please read carefully the accompanying guide.

Please use BLOCK CAPITALS

Title	Forename(s) in full		
Surname	Designation (if any):	A/C	
Address			
			Postcode

1

2

I offer to purchase

3

for which the amount **now** payable is

4

I make this application for BT Shares in the UK Public Offer on and subject to the terms and conditions of application set out in the Prospectus dated 21st November, 1991. I declare that to my knowledge and/or belief this is the only application in the UK Public Offer being made for my benefit (or that of any person for whose benefit I am applying) and that I have read the warning in Note 4 of the accompanying guide.

Signature	Date	1991
-----------	------	------

5

Attach your cheque here with a pin. It should be for the exact amount in Box 3, payable to "BT Share Offer" and crossed "Not Negotiable". Attach one cheque only.

6

JOINT APPLICANTS

The first applicant should fill in the boxes above. Other persons, applying to hold the Shares jointly with the first applicant, should insert their names in BLOCK CAPITALS and sign in the box below.

I/We join in this application and give the declaration set out in Box 4.

Title	Forename(s) in full	Surname	Signature



INSTRUCTIONS FOR RETURN OF THE PUBLIC APPLICATION FORM

BY POST

**SEND YOUR COMPLETED APPLICATION FORM
TO ARRIVE NOT LATER THAN 10.00 AM ON WEDNESDAY 4TH DECEMBER, 1991 AT**

**Barclays Bank PLC,
New Issues, P.O. Box 123, Fleetway House, 25 Farringdon Street, London EC4A 4HD**

ALLOW PLENTY OF TIME FOR DELIVERY

BY HAND

**TAKE THIS FORM BY HAND BEFORE 3.30 PM ON TUESDAY 3RD DECEMBER, 1991
to any UK branch of NatWest, Barclays, Lloyds, Bank of Scotland or Ulster Bank**

OR

**TAKE THIS FORM BY HAND BEFORE 10.00 AM ON WEDNESDAY 4TH DECEMBER, 1991
TO ANY OF THE RECEIVING CENTRES LISTED BELOW**

(open only for deliveries by hand)

Aberdeen

Bank of Scotland,
201 Union Street,
Aberdeen

Belfast

Ulster Bank Limited,
Personal Investment Unit,
88/90 High Street,
Belfast

Birmingham

Lloyds Bank Plc,
125 Colmore Row,
Birmingham

Bristol

National Westminster Bank PLC,
32 Corn Street,
Bristol

Cardiff

Barclays Bank PLC,
121 Queen Street,
Cardiff

Edinburgh

Bank of Scotland,
64 George Street,
Edinburgh

Glasgow

Bank of Scotland,
110 St. Vincent Street,
Glasgow

Guernsey

National Westminster Bank PLC,
35 High Street,
St. Peter Port,
Guernsey

Isle of Man

National Westminster Bank PLC,
1 Prospect Hill,
Douglas,
Isle of Man

Jersey

Lloyds Bank Plc,
9 Broad Street,
St. Helier,
Jersey

Leeds

National Westminster Bank PLC,
8 Park Row,
Leeds

Liverpool

Barclays Bank PLC,
4 Water Street,
Liverpool

London

National Westminster Bank PLC,
New Issues Department,
27 Old Broad Street,
London EC2

Barclays Bank PLC,
New Issues,
Fleetway House,
25 Farringdon Street,
London EC4

Lloyds Bank Plc,
Registrar's Department,
Issue Section,
2nd Floor, Bolsa House,
80 Cheapside,
London EC2

Manchester

National Westminster Bank PLC,
55 King Street,
Manchester

Newcastle Upon Tyne

Bank of Scotland,
41/51 Grey Street,
Newcastle Upon Tyne

Norwich

Barclays Bank PLC,
Bank Plain,
Norwich

Nottingham

Lloyds Bank Plc,
Old Market Square,
Nottingham

Plymouth

Barclays Bank PLC,
19 Princess Street,
Plymouth

Southampton

Lloyds Bank Plc,
19/21 High Street,
Southampton

