

Offer for sale

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

Global Co-ordinator of the Combined Offers

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

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

To the S.G. Warburg Group

Allen & Overy
9 Cheapside,
London EC2V 6AD

Registered office of BT

81 Newgate Street,
London EC1A 7AJ

Registrar and Custodian Bank

Lloyds Bank Plc
Lloyds Bank Registrars,
The Causeway, Worthing,
West Sussex BN99 6DA

Financial advisers**To HM Treasury**

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

To BT

N M Rothschild & Sons Limited
New Court, St. Swithin's Lane,
London EC4P 4DU

Accounting adviser to HM Treasury

Ernst & Young
Becket House, 1 Lambeth Palace Road,
London SE1 7EU

Auditors of BT

Coopers & Lybrand
1 Embankment Place,
London WC2N 6NN

Marketing advisers

Brunswick Public Relations Limited
17 Lincoln's Inn Fields,
London WC2A 3ED

Retail advisers to HM Treasury

Solid Solutions Associates
11A Sekforde Street,
London EC1R 0DH

This prospectus is issued on behalf of HM Treasury by S.G. Warburg & Co. Ltd., a member of The Securities and Futures Authority Limited. Subject as set out below, HM Treasury accepts responsibility for the information contained in this prospectus 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 (c) of "Summary of offer agreements" in Part 11), the information contained in this prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. The information relating to MCI Communications Corporation ("MCI") and its subsidiaries contained in "Selected financial data of MCI" and "Description of MCI's business", both in Part 5, has been reproduced from information published by MCI. As regards the information relating to MCI referred to above, HM Treasury has taken reasonable care to ensure that such information has been accurately and fairly reproduced from information published by MCI and the responsibility of HM Treasury therefor is limited accordingly.

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

S.G. Warburg & Co. Ltd. is acting as financial adviser to HM Treasury for the purposes of arranging the sale of HM Treasury's holding of Shares in BT and will not regard any other person (whether or not a recipient of this prospectus) as its customer in relation to that transaction. 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, up to 1,220 million Shares
are available for purchase in the UK and elsewhere.

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

Of the UK Public Offer Price, 150p per Share is payable on application, 140p is payable by 1st March, 1994 and the balance, determined as described in this prospectus, is payable by 11th October, 1994.

Of the International Offer Price, 160p per Share is payable upon purchase and the balance is payable in instalments of the same amounts and by the same dates as the UK Public Offer Price.



29th June, 1993

A Public application form is provided at the end of this prospectus, together with a guide on how to complete it. You should not use this form if you are eligible to apply on a Share Information Office application form or a Share Shop application form. The Terms and Conditions of application are set out in Part 13. The UK Public Offer closes at 10.00 a.m. on 14th July, 1993.

This prospectus is not for distribution in the United States ("US"), Canada or Japan. Residents of countries outside the United Kingdom of Great Britain and Northern Ireland ("UK"), the Channel Islands and the Isle of Man should refer to "Overseas applicants" in Part 12.

In connection with the International Offer, the Global Co-ordinator may over-allot or effect transactions which stabilise or maintain the market price of the Shares, Interim Rights 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 London International Financial Futures and Options Exchange ("LIFFE"), 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.

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Definitions

"BT" or the "Group"	the Company and its subsidiary companies, or any of them, as the context may require	"Licence"	the public telecommunications operator licence (as amended from time to time) issued to BT under the Telecommunications Act 1984 to operate its fixed-link public telecommunication network in the UK
"Combined Offers"	the UK Public Offer and the International Offer	"London Stock Exchange"	The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited
"Company"	British Telecommunications public limited company	"Manager"	has the meaning set out in Part 2
"Director General"	the Director General of Telecommunications	"MCI"	MCI Communications Corporation
"financial year"	year to 31st March	"OFTTEL"	the Office of Telecommunications
"Global Co-ordinator"	S.G. Warburg Securities Ltd. in its capacity as global co-ordinator of the Combined Offers and bookrunner for the International Offer	"PEP"	Personal Equity Plan
"HM Government"	Her Majesty's Government of the United Kingdom	"RPI"	the retail prices index
"HM Treasury"	The Lords Commissioners of Her Majesty's Treasury	"SDRT"	stamp duty reserve tax
"Interim Rights"	has the meaning set out in "Summary of Instalment Agreement" in Part 10	"Secretary of State"	the Secretary of State for Trade and Industry
"International Offer"	the separate International Offer of Shares being co-ordinated by the Global Co-ordinator as described in Part 2	"Shares"	fully paid ordinary shares of 25p each in the Company including, where the context requires, Interim Rights
"International Offer Price"	the amount per Share at which Shares are sold under the International Offer, determined in accordance with the International Offer Agreement (as amended from time to time) as described in Part 2	"UK Public Offer"	the offer for sale of Shares to the public in the UK and certain other countries on behalf of HM Treasury and described herein
		"UK Public Offer Price"	an amount per Share which is 10p less than the International Offer Price

Timetable

The following times and dates are expected to apply to the UK Public Offer:

Completed application forms to be received by (a)	10.00 a.m., 14th July, 1993
UK Public Offer Price, International Offer Price and final instalment determined and announced and allocations made.....	19th July, 1993
Commencement of dealings in Interim Rights in London (b)	7.30 a.m., 19th July, 1993
Despatch of interim certificates (c)	on or before 28th July, 1993
Payment of second instalment to be made for value by	1st March, 1994
Payment of final instalment to be made for value by.....	11th October, 1994

Notes:

- (a) Return of Share Shop application forms will be subject to earlier deadlines.
 (b) 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 do so at the risk of selling Interim Rights for which they have not received an allocation.
 (c) Despatch of interim certificates by Share Shops may be later than the date indicated.

1. Key information

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

BT's business

BT is one of the world's leading providers of telecommunication services. BT's main services and products are local and long-distance telephone calls in the UK, the provision of telephone exchange lines, 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 Company owns 60 per cent. of Cellnet, one of the two UK cellular telephone network operators. In the 1993 financial year, 98 per cent. of BT's total revenues arose from operations in the UK.

BT operates in the UK in an environment of extensive regulation, which is becoming more detailed, and of growing competition, which has already resulted in some erosion of BT's market share. BT is subject to controls on the prices it may charge for services which generate the majority of its revenues.

BT is promoting increased use of its network and is taking action to control its operating expenses, albeit with significant short-term costs resulting from workforce reductions, while seeking to maintain quality of services to its customers. BT is also seeking to develop its business outside the UK, including through possible acquisitions, joint ventures and other alliances, within the regulatory constraints of the countries concerned. BT has announced a proposed strategic alliance with MCI Communications Corporation, the second largest carrier of long-distance telecommunication services in the US.

BT believes that it has a strong financial and technological base from which to seek further improvements in efficiency and to develop its business, but that inevitable uncertainties arise from increasing competition, the UK economy and the effects of more restrictive regulation.

Financial information					
	1989	1990	Year ended 31st March, (a)		
			1991	1992	1993
Revenues (£ million)	11,071	12,315	13,154	13,337	13,242
Profit on ordinary activities before taxation (£ million)	2,437	2,302(b)	3,075	3,073	1,972(b)
Earnings per Share	25.9p	25.0p	34.0p	33.2p	19.8p
Net dividends per Share	10.5p	11.8p	13.3p	14.4p	15.6p

Notes:

- (a) The financial information for BT's five financial years ended 31st March, 1993 is derived from BT's audited consolidated financial statements for the relevant year.
- (b) Operating costs for the 1993 financial year include £1,034 million for employee redundancy charges. Operating costs for the 1990 financial year include a charge of £390 million to cover the costs of restructuring the Group and refocusing its operations.

Market statistics

The statistics set out below are based on the closing middle-market quotation for the Shares on 25th June, 1993 of 424.5p, as derived from the London Stock Exchange Daily Official List.

Stockmarket capitalisation of BT £26,334 million

Historic price/earnings multiple based on BT's earnings per Share for the 1993 financial year of 19.8p 21.4 times

Pro forma dividend yield based on BT's total dividend per Share in respect of the 1993 financial year of 15.6p net (a) 4.6 per cent.

Note:

- (a) Assuming a notional associated tax credit of 3.9p, being 25 per cent. of the 15.6p net dividend.

Dividends

The first dividend to which holders of Shares sold under the Combined Offers will be entitled is BT's proposed final dividend for the 1993 financial year of 9.45p net per Share, which will, subject to shareholder approval at the forthcoming annual general meeting, be payable on 30th September, 1993, or as soon as possible thereafter, to holders of Shares and Interim Rights on the register on 1st September, 1993.

2. 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 1,220 million Shares.

The Combined Offers comprise:

- (a) the UK Public Offer in the UK and certain other countries of up to 815 million Shares (subject to increase as described in "Pricing and allocations" below) at the UK Public Offer Price; and
- (b) the International Offer to certain investors in the UK and elsewhere of up to 1,220 million Shares at the International Offer Price.

In addition to the Shares offered for sale by HM Treasury in the International Offer, the Global Co-ordinator may, in connection with the International Offer, over-allot Shares as described in "Over-allotment and stabilisation" below.

Although the UK Public Offer and the International 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 UK Public Offer will not be underwritten. The International Offer will not be underwritten until allocations are made to the managers, including selling group members, for the International Offer (the "Managers"), which is expected to be on or about 19th July, 1993. The Company will not receive any proceeds from the sale of Shares under the Combined Offers.

As at 25th June, 1993, HM Government held 1,352.6 million Shares. Assuming HM Treasury sells all of the Shares being offered by it under the Combined Offers (together with the Shares which would be sold on exercise in full of the Over-allotment Option described in "Over-allotment and stabilisation" below), it would expect to hold not more than 1.5 per cent. of the Company's issued share capital immediately after the Combined Offers. This holding would comprise principally Shares retained to meet share bonus entitlements under the arrangements made in HM Treasury's sale of Shares in December 1991 and a number of Shares reserved from the Combined Offers to satisfy Share Bonus entitlements under the UK Public Offer.

The UK Public Offer

Under the UK Public Offer, completed application forms must be received by 10.00 a.m., on 14th July, 1993. The return of Share Shop application forms will be subject to earlier deadlines as referred to in "Share Shop application forms" in Part 12. The UK Public Offer Price will be 10p less than the International Offer Price, which is expected to be determined on 19th July, 1993. Following determination of the International 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 18th July, 1993. Dealings in Interim Rights are expected to commence in London

at 7.30 a.m. on 19th July, 1993. 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 12.

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 150p per Share, which is 10p less than the first instalment due in respect of Shares sold under the International Offer. The second and final instalments will be the same under both the UK Public Offer and the International Offer. The second instalment is 140p per Share and is due by 1st March, 1994 and the final instalment (which will be announced at the same time as the UK Public Offer Price) is due by 11th October, 1994. Prior to full payment, Shares will be represented by Interim Rights in respect of which interim certificates will be issued. Set out in "Summary of Instalment Agreement" in Part 10 is a description of the Interim Rights 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 12, to receive incentives from HM Treasury, in the form of either a Share Bonus of one additional Share (subject to a maximum of 100 additional Shares) for every 15 Shares purchased in the UK Public Offer and held continuously until 31st July, 1996, or alternatively, an Instalment Discount of 10p per Share, 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 International Offer

The International Offer is being made by the Managers pursuant to an International Offer Agreement with HM Treasury. Under the terms of the International Offer Agreement, the Managers have agreed to solicit from prospective investors firm but non-binding indications of interest in purchasing Shares ("bids") specifying the number of Shares which such investors would be prepared to purchase either at different specified prices or at the strike price to be fixed as the International Offer Price. Eleven of the Managers have been designated as members of a global syndicate (the "Global Managers") with the exclusive right to solicit bids from some 500 prospective institutional investors ("Specified Investors") in various countries and with the right to solicit bids from other prospective investors located in any country where the International Offer is being made (in each case, directly or through certain affiliates). The remaining Managers have been designated as members of one or more of the three regional syndicates established for the International Offer. These three syndicates cover North America, Japan and the Rest of the World and comprise regional managers (the "Regional Managers") and selling group members (the "Selling Group Members") together, in the case of the North American Regional Managers, with affiliates qualified to distribute the Shares in Canada or the US ("Canadian Distributors" and "US

Distributors" respectively). Members of regional syndicates may solicit bids only from prospective investors in their particular region who are not Specified Investors.

As part of the International Offer, S.G. Warburg Securities Ltd. has invited Retail Brokers to submit bids on behalf of Qualifying Clients. See "The UK Retail Tender" in Part 12.

Bids in the International Offer may be submitted to a Manager from 8th July, 1993 to 5.00 p.m., London time, on 16th July, 1993 (the "Offer Period") and may be revised and updated periodically, but all final bids must be received by the Managers by the end of the Offer Period, and submitted by Managers to the relevant regional administration centre by 6.30 p.m., London time on that date.

On or about 19th July, 1993, HM Treasury, in consultation with the Global Co-ordinator, will determine the International Offer Price and, based on the final bids, allocations of Shares to bidders and the basis of allocation as between applicants in the UK Public Offer and bidders in the International Offer. The International Offer Price will be expressed in pounds sterling and will apply to all purchasers in the International Offer. If the Managers accept, in accordance with the provisions of the International Offer Agreement, the proposed allocations to them and the International Offer Price, the Managers will be required to offer the Shares comprised in the allocations to the bidders, and in the amounts, specified by HM Treasury. Managers will be required to procure purchasers for, or to purchase for their own account, all Shares which are not purchased by bidders notified of their allocation.

Pricing and allocations

The determination of the International Offer Price, the number of Shares allocated to, and sold pursuant to, each of the UK Public Offer and the International Offer and the basis of allocation as between applicants in the UK Public Offer and bidders in the International Offer, will be determined in its absolute discretion by HM Treasury, following consultation with the Global Co-ordinator. 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 Offer will be allocated Shares, including an investor bidding at or above the International Offer Price. The International Offer Price will not necessarily be the highest price at which bids are submitted for Shares allocated to the International 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 Offer, HM Treasury's policy will, subject to these primary considerations, aim to provide similar treatment for bids which it considers to be of substantially similar quality and price. In considering the quality of bids, other than PEP bids in the UK Retail Tender, HM Treasury's allocation policy will not, all other things being equal, differentiate between Specified Investors and other prospective investors but 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, of Shares in the immediate after-market, bids on behalf of shareholders who are believed by HM Treasury to have increased their holdings in the period from 21st May, 1993 to the end of the Offer Period and

bids on behalf of investors which HM Treasury believes have not engaged in market activity considered by HM Treasury to have been adverse to the Combined Offers. As between bids of similar quality, bids at higher price levels will be favoured.

PEP bids (as defined in "The UK Retail Tender" in Part 12) will receive more favourable treatment in allocation than other bids in the UK Retail Tender.

As at 29th June, 1993, 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 50 per cent. of the Shares sold by it in the Combined Offers to applicants under the UK Public Offer and 50 per cent. to bidders under the International Offer. HM Treasury expressly reserves the right to vary these percentages and to reduce the aggregate number of Shares offered or sold by it pursuant to the Combined Offers. None of these amounts 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 Offer, at the International Offer Price, pursuant to the Over-allotment Option described below.

Not less than 33 per cent. of the Shares sold by HM Treasury pursuant to the Combined Offers will be allocated to the International Offer, unless HM Treasury and the Global Co-ordinator agree that adequate demand has not been forthcoming in the International Offer and that any reduction in the percentage allocation to the International Offer, and consequent increase in the percentage allocation to the UK Public 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 Offer Price and allocations are determined by it and accepted by the Managers.

A summary of the commissions payable to the Managers under the International Offer is set out in paragraph (b) of "Summary of offer agreements" in Part 11.

Over-allotment and stabilisation

In connection with the International Offer, the Global Co-ordinator may over-allot or effect transactions which stabilise or maintain the market price of the Shares, Interim Rights 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, LIFFE, 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. Any over-allotment and any stabilisation transactions 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 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 Securities and Investments Board. Under these rules, stabilisation transactions may commence once the International Offer Price has been publicly announced.

The Global Co-ordinator has been given the right (the

"Over-allotment Option"), solely for the purpose of meeting over-allotments made by it in connection with the International Offer, to purchase from HM Treasury at the International Offer Price an additional number of Shares up to the greater of 7.5 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 Offer. The number of Shares allocated by HM Treasury under the Combined Offers will be reduced to the extent that the number of Shares which the Global Co-ordinator has been given the right to acquire pursuant to the Over-allotment Option exceeds 91.5 million. The International 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.

Subsequent developments

If, under the arrangements summarised above, at any time prior to the International Offer Price and allocations being determined (which is expected to be on or about 19th July, 1993), 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 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 bidders or potential bidders in the International Offer, a press announcement will be issued in London and delivered to the London Stock Exchange.

3. Description of BT's business

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 Company was incorporated under the laws of England and Wales on 1st April, 1984 as a public limited company wholly-owned by HM Government. In December 1984, HM Government sold just over 50 per cent. of the Shares to the public in a worldwide offering and, in December 1991, sold a further 25.6 per cent. of the Shares. HM Government's shareholding in the Company at 25th June, 1993 was 21.8 per cent.

The following table shows the principal components of BT's revenues during each of the last five financial years. In the 1993 financial year, 98 per cent. of BT's total revenues arose from operations in the UK.

Revenues	Year ended 31st March				
	1989	1990	1991	1992	1993
	£m	£m	£m	£m	£m
UK local and long-distance telephone calls	4,343	4,804	5,087	5,111	5,095
Telephone exchange line rentals	1,479	1,637	1,894	2,117	2,233
International telephone calls	1,602	1,850	1,876	1,853	1,859
Customer premises equipment supply	1,367	1,389	1,349	1,251	1,025
Other sales and services	2,280	2,635	2,948	3,005	3,030
Total revenues	11,071	12,315	13,154	13,337	13,242

BT essentially operates as a unitary business, providing an integrated range of telecommunication products and services. Accordingly, BT does not publish operating profit separately for the various sources of revenues. However, management considers that the Group's 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.

On 2nd June, 1993, BT and MCI, the second largest carrier of long-distance telecommunication services in the US, announced that they had signed a letter of intent with respect to a strategic alliance which will involve the creation of a new international joint venture company and the acquisition by BT of a 20 per cent. interest in MCI. See "Recent developments - Strategic alliance between BT and MCI" in Part 5.

Regulatory environment

BT operates in the UK in an environment of growing competition and extensive regulation. The prices of services that generate a majority of the Group's revenues are controlled by a licence granted by the Secretary of State which is enforced by the Director General who also has broad supervisory powers and duties under the Telecommunications Act 1984 (the "Telecommunications Act"). This Licence was amended in 1991 and 1993. See Part 4, "Regulation, Competition and Prices". As BT seeks to expand its interests and activities outside the UK, regulatory regimes elsewhere in the world are becoming an increasingly important feature of its operating environment.

Strategy

BT is continuing to encourage increasing use of its network and is taking action to control its operating expenses, albeit with significant short-term costs resulting from workforce reductions, while seeking to maintain quality of services to its customers. 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 network services for multinational business customers.

BT currently derives approximately 98 per cent. of its revenues 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 outside the UK,

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.

For a description of the recently announced strategic alliance between BT and MCI, see "Recent developments - Strategic alliance between BT and MCI" in Part 5.

BT's services

UK telephone services

Within the UK, the Company has 26 million customer lines (exchange line connections), comprising 20 million residential lines and six million business lines, over which, on average, approximately 90 million UK local and long-distance telephone calls are made each day. Telephone calls comprise both voice and non-voice traffic, such as facsimile and data transmission, and include calls to directory assistance services.

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:

	1989	1990	1991	1992	1993
Estimated growth over previous year in BT's UK telephone call volume (a)	11%	10%	4%	1%	0%

Note:

(a) Growth is estimated by reference to revenue growth attributable to UK local and long-distance telephone calls, adjusted to eliminate the effect of price changes.

UK local and long-distance telephone calls accounted for approximately 38 per cent. of the Group's total revenues in the 1993 financial year.

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. However, BT's UK call growth has slowed very substantially over the last three years due to the UK recession and increased competition.

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

In the 1993 financial year, telephone exchange line rentals accounted for approximately 17 per cent. of the Group's total revenues. BT's exchange line customers are generally charged a uniform quarterly rental per line, the charge 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 the respective percentage growth over the number of connections one year previously:

	1989	1990	1991	1992	1993
Business ('000s)	5,037	5,551	5,795	5,866	5,970
- Growth	10.5%	10.2%	4.4%	1.2%	1.8%
Residential ('000s)	18,703	19,246	19,573	19,729	20,114
- Growth	3.3%	2.9%	1.7%	0.8%	2.0%
Total ('000s)	23,740	24,797	25,368	25,595	26,084
- Growth	4.7%	4.5%	2.3%	0.9%	1.9%

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

International telephone calls

International telephone calls accounted for approximately 14 per cent. of the Group's total revenues in the 1993 financial year. The greater part of BT's international telephone call traffic is generated from a limited number of routes. 78 per cent. of outgoing call volume is to 20 countries, the largest element of which, calls to the US, accounted for 18 per cent. of outgoing call volume in the 1993 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 direct dialled.

The following table shows the estimated growth rates in the volume of BT's international telephone calls (outgoing, incoming and transit) in each of the last five financial years:

	1989	1990	1991	1992	1993
Estimated growth over previous year in BT's international call volume (a)	13%	13%	6%	4%	6%

Note:

(a) Growth is estimated 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, and in the 1992 and 1993 financial years, from a significantly higher level of transit traffic through the UK. The significant decline in call volume growth rates since the 1990 financial year has been caused by increased competition coinciding with slowdowns in the UK and other world economies.

International call revenues are derived from outgoing calls made by customers in the UK and from receipts from overseas telecommunications 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 Telecommunications Union. BT's receipts and payments are broadly in balance overall.

Historically, 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 been agreed with the overseas operators with which the majority of BT's international traffic is exchanged. 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 these activities. As part of its review, the FCC, in an effort to further its goal of lower, cost-based accounting rates and calling charges, adopted new rules relating to international simple resale and is considering an application from BT relating to these services. See "Overseas regulation" in Part 4.

Customer premises equipment supply

BT rents and sells a wide range of equipment for customer premises, from telephones for use in the home to advanced private exchange equipment for businesses. These activities accounted for approximately 8 per cent. of the Group's total revenues in the 1993 financial year.

As part of the Group's policy of concentrating its activities on providing telecommunication networks and network-related services, BT sold its 51 per cent. shareholding in Mitel Corporation ("Mitel"), a Canadian based manufacturer of electronic telecommunication equipment, in June 1992.

Other sales and services

Other sales and services, which accounted for approximately 23 per cent. of the Group's total revenues in the 1993 financial year, include the supply of private circuits, mobile communication services and products and various other activities. Volume changes for the activities described below have been estimated by adjusting revenues to eliminate the effect of price changes.

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. BT has about 0.8 million UK and international private circuits in service. There is continuing change from analogue to digital circuits, in part because digital circuits normally have greater capacity and flexibility of use. Private circuit volumes decreased by approximately one per cent. in the 1993 financial year, due to a reduction in analogue circuits.

Mobile communications

Mobile communication services and products supplied by BT mainly comprise cellular telephony, radiopaging and voice messaging. Cellular telephony has continued to grow at a faster pace than other sectors of the telecommunications industry in the UK and internationally.

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 (which has an estimated population of 55 million) and covers all major populated areas. Cellnet is also developing a system as part of a pan-European digital cellular network.

Cellnet introduced in autumn 1992 a pricing package designed for customers who are infrequent users of cellular telephones (the "Lifetime" package). At about the same time, a similar package was introduced by Vodafone. These pricing packages have resulted in further growth in this sector. A significant number of Cellnet subscribers have transferred to the Lifetime package.

The following table shows the number of telephones subscribed to Cellnet's network at the end of each of the last five financial years:

Cellnet	Year ended 31st March				
	1989 '000s	1990 '000s	1991 '000s	1992 '000s	1993 '000s
Cellular telephones in the UK	258	429	509	547	658

BT estimates that the total number of telephones subscribed to the two UK cellular networks at 31st March, 1993 was 1.5 million, up from 1.26 million at 31st March, 1992.

BT also owns approximately 17 per cent. of the total equity, representing approximately 21 per cent. of the 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. The Group has a provisional agreement for the sale of its holding in McCaw to American Telephone and Telegraph Company ("AT&T"). The sale is dependent on transactions between McCaw and AT&T and the resolution of a number of legal, regulatory and other issues in the US. Any agreements are subject to negotiation of final terms and approval by the boards of directors of McCaw, AT&T and BT, as well as by appropriate government agencies. There is no assurance that the parties will reach final agreement.

Other activities

BT is also engaged in the following activities:

Yellow Pages – a series of regional classified information directories in the UK provided to meet both consumer and business needs. Yellow Pages advertising volumes decreased by approximately 3 per cent. in the 1993 financial year as compared with the 1992 financial year.

Exchange line connections – the installation and reconnection of exchange lines. In the 1993 financial year there was a decrease of approximately 7 per cent. in the number of new exchange line connections, compared with the number of new exchange line connections in the 1992 financial year.

Managed network services – value-added communications services used in the transmission of computer data. Local access to these services is available from more than 850 locations in North America, Europe and the Pacific Rim, with communications links to over 100 countries and territories.

Carrier telecommunication services – whereby existing telecommunications operators and new entrants to the UK telecommunications market can utilise BT's network through interconnection to it.

Outsourcing services – telecommunication outsourcing services for the management of complex international communication needs of organisations for voice and data. BT established Syncordia, based in Atlanta, Georgia, US in the 1992 financial year to provide these services internationally. To enable BT to provide international virtual network services, where permitted, BT applied in March 1993 to the FCC for authority to resell in the US international private lines and switched services. See "Overseas regulation" in Part 4.

Other services – BT also provides toll free services, and visual communication services, including the distribution of television material for broadcasting organisations, video-conferencing and closed circuit television.

Certain of the managed network services and outsourcing services described above are expected to be transferred to the new international joint venture company which BT and MCI are setting up. See "Recent developments – Strategic alliance between BT and MCI" in Part 5.

Network modernisation and capital expenditure

BT has been engaged in an extensive programme of modernising, improving and expanding its telecommunication network. BT continues to install local digital telephone exchanges to replace electro-mechanical exchanges,

following completion of the installation of digital switching and associated transmission equipment throughout its UK long-distance network in the 1991 financial year. BT is also continuing to install optical fibre cable in the network.

Movement towards a digital network has already improved call quality for customers and provided management with more flexibility and control, and has led to reductions in maintenance manhours. It also makes possible the integration of voice, data and other services into a single Integrated Services Digital Network ("ISDN"), which is being offered to business customers served by digital exchanges. Other services, such as call forwarding and reminder calls, are also available to virtually all customers served by digital exchanges.

BT is also engaging in a programme of expanding its network overseas in pursuit of its international strategy. See "Recent developments - Strategic alliance between BT and MCI" in Part 5.

Capital expenditure

BT's capital expenditure over the last five financial years is shown in the table below:

BT's capital expenditure					
	1989	1990	1991	1992	1993
	£m	£m	£m	£m	£m
Plant and equipment					
- Transmission	1,061	1,378	1,310	1,173	835
- Telephone exchanges	852	952	799	722	545
- Other network equipment	284	301	284	281	296
- Computers and office equipment	369	205	168	170	152
- Motor vehicles and other	140	197	152	131	272
Property	167	185	113	54	66
Increase (decrease) in engineering stores	74	(103)	(68)	(85)	(11)
Total expenditure on property, plant and equipment	2,947	3,115	2,758	2,446	2,155

Capital expenditure in the 1993 financial year continued to be concentrated on the renewal, modernisation and expansion of the UK transmission network and the modernisation of UK telephone exchanges, all of which accounted for 59 per cent. of the total capital expenditure. The decline in capital expenditure in the 1993 financial year was largely due to lower expenditures on UK transmission equipment and telephone exchanges, continuing the trend since the peak in the 1990 financial year. Expenditure on motor vehicles and other assets increased by £141 million in the 1993 financial year, mainly as a result of a programme to upgrade BT's van and car fleet. BT expects capital expenditure in the 1994 financial year to be at a similar level to that in the 1993 financial year. See "Capital expenditure" in Part 5.

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 local exchange modernisation, about 64 per cent. of the customer lines in service are now served by digital exchanges. In the UK, over 95 per cent. of BT's customer lines are connected to digital or semi-electronic exchanges enabling the majority of customers to access a range of advanced network services, such as call

forwarding and reminder calls. The following table shows the percentage of customer lines in service served by type of exchange and the percentage availability of itemised billing (made possible by exchange modernisation) at the end of each of the last five financial years:

Network modernisation					
	1989	1990	1991	At 31st March	
	%	%	%	1992	1993
Customer lines served by type of telephone exchange					
- Digital	23.1	37.7	46.9	54.6	64.0
- Semi-electronic	40.3	38.6	37.1	35.0	31.9
- Electro-mechanical	36.6	23.7	16.0	10.4	4.1
Total	100.0	100.0	100.0	100.0	100.0
Itemised billing availability	3.8	37.0	73.9	80.7	88.6

Optical fibre accounts for approximately 85 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 it is unlikely to install optical fibre to residential customers on a widespread basis over the next few years, under the current licensing arrangements regarding these services. See "Cable television and mobile services" in Part 4.

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 many destinations, including continental Europe, North America and Japan. BT has investments in a number of international consortia which provide and own satellite communication facilities. All of BT's international telephone calls are switched through digital international exchanges in the UK. BT also plans to invest in switching and transmission equipment for the provision of international virtual network services. See "Recent developments - Strategic alliance between BT and MCI - Effects on the financial position of BT" in Part 5.

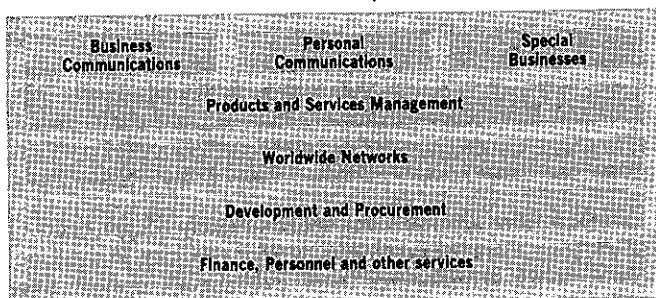
Research and development

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 1993 financial year totalled £233 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 and network services, but work also continues on optical fibre systems, speech and image processing, and mobile applications.

Organisation and employees

Organisation

BT is 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 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 under "Other sales and services" above. Worldwide Networks brings together responsibility for BT's UK and international networks, and the other support units provide specialised services to the other divisions.

Employees

The following table shows the total number of BT's employees at the end of each of the last five financial years:

BT's employees					
	1989	1990	1991	At 31st March, 1992	1993
Total employees	244,400	245,700	226,900	210,500	170,700

The number of BT's employees has fallen since March 1990 as a result of improvements in operating efficiency, a reduction in layers of management and in directory assistance work, the contracting-out of certain services, and business disposals. See "Operating costs" in Part 5. BT is aiming to reduce the number of employees by around 15,000 during each of the 1994 and 1995 financial years.

An estimated 75 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 few years has been generally stable. The substantial reduction in numbers employed since March 1990 has been implemented on a voluntary basis and without significant disruption to BT or its customers.

Most BT employees are members of the BT Pension Scheme, which is controlled by trustees who are Company or union nominees. This scheme was the result of a merger of the two previous schemes on 1st January, 1993, which did not affect members' benefit entitlements.

4. Regulation, Competition and Prices

Regulation

UK regulation

The regime for the regulation of telecommunications activities in the UK is principally set out in the Telecommunications Act, which confers regulatory functions on the Secretary of State and the Director General. Under this 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, including certain community services, and to secure that licensed operators are able to finance the provision of those services. Subject to this duty, they are required, among other things, 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 between persons engaged in commercial activities in the UK telecommunications field and to promote efficiency and economy on the part of such persons.

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 with the Secretary of State after consulting the Director General. The Director General 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 UK 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 statutorily responsible for enforcing licence conditions, and he may make orders requiring compliance, enforceable in the courts, which, if breached, could result in liability for damages to third parties. He also has broad discretionary powers (under the Telecommunications Act and in licences) available to him and is 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 Monopolies and Mergers Commission (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 the Office of Fair Trading (the "OFT")

in exercising certain functions under the Fair Trading Act 1973 and under the Competition Act 1980, but only insofar as they relate to telecommunications. See "General competition law" below.

Sir Bryan Carsberg was Director General from 1984 until June 1992, when he was appointed Director General of the OFT. William Wigglesworth (Deputy Director General until June 1992 and from 1st April, 1993) filled the position of Director General until 1st April, 1993, when Donald Cruickshank became Director General. A chartered accountant by training, Mr. Cruickshank was formerly Chief Executive Officer of the National Health Service in Scotland and previously Managing Director of the Virgin Group plc from 1984 to 1989. In making the appointment, the Secretary of State said he believed it was important to have a Director General "who had direct experience of competition as a businessman". The Director General's current appointment continues until 31st March, 1998. The Director General is supported by OFTEL, which currently employs a permanent staff of about 160.

The Director General has confirmed that, as at the date of this prospectus, this Part 4, "Regulation, Competition and Prices", represents an appropriate summary insofar as it describes his duties and functions, including the statements attributed to the Director General or his predecessors.

The BT Licence

BT operates in the UK under a number of licences granted under the Telecommunications Act, the most important of which is its public telecommunications operator licence to operate its fixed-link public telecommunication network (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 Licence contains terms and 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 telecommunication services and equipment within the UK.

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 "universal service obligation"). The Company must also provide certain public services and facilities.

The Company has to connect to its system on standard terms and conditions any other system run under a licence which authorises connection to the Company's system and which is composed of equipment which meets specified independent approval standards and to install separate wiring for its network and for customers' equipment in customers' premises, so as to enable private systems and equipment to be separate from the Company's system.

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, defined in the Licence; 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, each of

which, in the aggregate, restricts the extent to which the Company can increase, or requires it to reduce, the prices of many of its services. See "Prices" below. In addition, the Licence contains certain specific restrictions on the terms on which BT can trade. In particular, the Company is required to publish and adhere to standard tariffs and other terms for providing certain services, to make a uniform charge for the maintenance of exchange lines for premises served by a single line and, in general, to apply uniformly a published scale of charges for installing residential exchange lines on premises to be served by a single line.

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 specified parts of its business. These parts, designated in the Licence for regulatory purposes, are the "systems business" (the activities of running the main UK network, including installation, maintenance and repair of the network and conveyance of messages); the "supplemental services business" (generally, value-added services and data services, including video-conferencing); and the "apparatus supply business" (broadly, the supply of customer premises equipment). Such accounts are required to enable the Director General to satisfy himself as to compliance with the prohibition on unfair cross-subsidy discussed above. Where it appears to the Director General that an unfair cross-subsidy exists, BT must take such steps as the Director General may direct for remedying the situation.

Following an investigation in 1991, the Director General has formed the view that such a cross-subsidy does exist in relation to BT's apparatus supply business and has issued a direction stipulating measures to be taken to remedy the situation. These include the production of a five year budget, to be agreed by the Director General, showing how the apparatus supply business will progress to a position of satisfactory performance where any such cross-subsidy is eliminated. Such a budget was provided to the Director General in March 1992. Quarterly accounts showing the performance of the apparatus supply business have been provided as required under the direction.

The Director General wrote to BT on 24th June, 1993 asking for justification of two recent special offers on call prices under the non-discrimination provisions of the Licence. The Director General also asks for advance information on any further special offers to ensure that BT is not showing undue preference to itself by charging interconnecting operators on a different basis for their use of the network during the period of any special offer. The Director General also states that he is minded to proceed to a determination under the Licence, unless BT demonstrates to him that it has not shown undue preference to itself. Any breach of a determination on non-discrimination could lead to enforcement action. BT views this development with concern and is considering its response to the Director General.

As part of the agreement reached in August 1992 between the Company and the Director General concerning prices (see "Prices - Public switched telephone services" below), BT has agreed to a Licence amendment requiring it to publish annual consolidated financial statements for the Group on a current cost basis, beginning with the 1994 financial year, and to provide the Director General with financial statements prepared on a similar basis for its systems business. BT also gave certain undertakings to the Director General relating to the installation of optical fibre and

digitalisation of the network, to be achieved by July 1997.

Interconnection under the Licence

The Company must, in accordance with the Licence, 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, for negotiation between the companies concerned, but the Director General may determine unagreed terms and conditions, on the application of either party. See "Competition - Interconnection" below.

In 1991, the interconnection condition in the Licence was amended to require interconnect call charges determined by the Director General to cover fully allocated costs of conveyance, including a full contribution to relevant overheads; a return on capital employed, judged by the Director General as reasonable for the systems business; and, until BT ceases to be subject to restrictions on rebalancing, a specific contribution in certain circumstances by other operators ("access deficit contribution") towards the losses incurred by BT in providing exchange lines. "Rebalancing" means increasing exchange line rentals while decreasing call prices, to reflect better the costs of providing these services.

The Director General may waive all or part of the access deficit contributions in certain circumstances following an application for a determination by either party, taking account of a number of market-related and other 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 their first 10 per cent. of market share, until they attain a 25 per cent. market share, at which point they must pay to BT full access deficit contributions in respect of revenues from their entire market share. If BT's market share falls to 85 per cent., then full contributions will be payable in all cases on any incremental market share loss by BT. Full contribution will also be required on all traffic arising from equal access. See "Competition - Equal access and number portability" below. The Director General may also at any time waive all or part of the contributions otherwise payable by cellular operators, including operators of personal communication networks ("PCNs").

As part of the 1993 Licence amendment to implement the August 1992 agreement on prices, the Director General may now take into account discounts offered by BT to non-carrier customers when he determines interconnection charges to carriers and BT must make publicly available either interconnection agreements themselves, or an adequate description of them including the method of calculating interconnect charges sufficient to enable those charges to be readily calculated.

The consultative document on interconnection and accounting separation published by the Director General on 8th June, 1993 outlines some possible changes to the rules governing interconnection. See "Competition - Interconnection and accounting separation" below.

Competition and Service (Utilities) Act 1992

The Competition and Service (Utilities) Act 1992 amended the Telecommunications Act, in respect of residential customers and of other customers served by a single exchange line from the designated telecommunications operator. The Director General acquired new powers concerning, among other things, service standards and the amount of compensation to be paid to individual customers if such standards

are not met; overall performance standards; procedures for handling complaints; and criteria for charging deposits. The Secretary of State is also empowered under the Act to make regulations giving the Director General power to resolve billing disputes. HM Government can only apply the Act to a competitor of BT if the competitor provides 25 per cent. of voice telephony services in its licensed area.

The Director General's new powers will apply in relation to a specified range of services, including voice telephony, facsimile and directory information services. In particular, he can set enforceable performance standards after consultation with BT, but without the agreement of BT and without reference to the MMC.

BT, the Director General and HM Government are currently discussing aspects of the detailed implementation of the Act. BT believes that the full extent of the effect of the powers in the Act cannot be assessed until the Act is fully implemented and the powers are exercised from time to time.

The Director General has confirmed that, in drawing up standards, he will be concerned not to impede BT's ability to compete fairly and not to interfere in what are properly BT's management responsibilities.

Although the Act contains powers which BT believes may have adverse effects on BT, BT does not expect them to be material.

Radio spectrum licences

The use of radio spectrum in the UK is regulated under the Wireless Telegraphy Act 1949. BT's national and international telecommunication networks, including microwave and satellite links, are dependent on licences under this Act. Licences cover all the Company's fixed terrestrial and satellite links and its maritime uses of radio. Its radiopaging services and Cellnet's cellular network are licensed separately. Licences under this Act 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.

In December 1991, HM Government stated that ultimately, with limited and specific exceptions, BT will lose management control of all of its blocks. Although BT cannot currently assess the financial effects of this, BT believes that the loss of management control will reduce the speed and flexibility with which it provides new or modified radio links within its network and direct to customers.

The EC Procurement Directive

In January 1993, new UK regulations came into force implementing a directive of the European Community ("EC") concerning the procedures for the purchase of supplies and works by entities operating in the water, energy, transport and telecommunications sectors. The UK regulations apply, in effect, in the telecommunications sector, to BT but not to competing public telecommunications operators, and apply to procurement for a substantial proportion of BT's services. There is a dispute between HM Government and BT as to whether the UK regulations properly implement the directive in respect of an exemption contained in the directive for contracts related to certain services.

BT believes that the regulations would have the effect of making available to competitors information about contracts with suppliers which BT intended to place, and thus permitting inferences to be drawn about its plans; the regulations would also impose an administrative burden to which BT's competitors would not be subject. The application of the

regulations may adversely affect BT's competitive position and could expose BT to the risk of possible legal action from aggrieved suppliers for non-compliance with the regulations.

BT has commenced legal proceedings against HM Government challenging the legal validity of the UK regulations. HM Government considers that it has properly implemented the directive and is defending the proceedings. A court hearing was scheduled to commence on a date around the date of this prospectus.

Overseas regulation

In developing its business internationally, BT must take account of the regulatory regimes in the countries in which it operates or wishes to operate. Generally, most countries' regimes are less liberal than those in the UK and North America. In North America, although the regulatory environment is generally liberal, there remain significant barriers to entry, including limitations on the level of stock which may be owned of record or voted by non-US citizens in US companies holding common carrier radio licences (which are necessary for providing a full range of telecommunication services) to not more than 20 per cent. for direct holdings or 25 per cent. for indirect holdings, and the treatment of US affiliates of certain non-US operators as "dominant carriers" in the US, the effect of which is discussed below. For a discussion of the recently announced alliance between BT and MCI and the regulation of MCI's business in the US, see "Recent developments - Strategic alliance between BT and MCI" in Part 5.

HM Government has a policy of allowing international simple resale (resale of international leased (private) circuits interconnected to public switched networks at both ends simultaneously for the provision of switched voice services) with countries which offer UK telecommunications operators equivalent resale opportunities. To date, such resale has been authorised between the UK and Australia, Canada and Sweden. HM Government is currently considering whether to authorise simple resale with the US. The US has a similar policy of allowing simple resale, where there are equivalent opportunities at the distant end. However, it subjects such resale to much greater regulatory oversight, including the application of "dominant carrier" regulation to US resellers controlled by foreign telecommunication operators, unless the reseller can demonstrate that its foreign parent lacks the ability to discriminate against unaffiliated US telecommunications operators in markets outside the US. While not a barrier to market entry, the greater regulatory burden of dominant carrier regulation does place US affiliates of foreign telecommunications operators at a competitive disadvantage compared to US-owned operators.

If international simple resale is permitted between the UK and US, the Company believes that it would lose revenue in the UK to resale operators, but that this would be partly offset by additional revenue from international private circuits provided to resale operators. However, authorisation by HM Government and the FCC of such resale would facilitate the provision of services internationally. In March 1993, BT North America Inc., a wholly owned subsidiary of BT in the US ("BT North America"), filed an application with the FCC, on the basis that equivalent opportunities exist in the UK, seeking authority to provide international telecommunications services in the US by reselling circuits leased from US telecommunications operators and by providing its own circuits. In the filing, BT also seeks non-dominant regulatory status, based on a combination of the openness of the UK

market and the UK regulatory regime, which, when taken together, effectively safeguard against the Company engaging in undue discrimination. The effect on this application of the proposed transactions, described in "Recent developments - Strategic alliance between BT and MCI" in Part 5, has not yet been determined.

The FCC is continuing its review of the arrangements under which international accounting rates are set, with the objective of achieving a substantial reduction in the rates paid by US operators. In November 1992, as part of this review, the FCC adopted a benchmark range for accounting rates between the US and Europe. BT's accounting rate with US operators falls into the lower half of this benchmark range, and consequently, BT does not expect to be materially affected by the FCC's initiative.

The European Commission is pursuing a policy of progressive liberalisation and harmonisation. Current EC legislation leaves the EC well short of the degree of liberalisation achieved in the UK. The EC has recently reviewed the telecommunication services sector to evaluate further liberalising measures. Its policy is generally to liberalise public voice telephony services but not before 1998. BT strongly supports further and faster EC liberalisation, which the Company believes would facilitate the development of its business in Europe.

General competition law

In addition to regulation relating to BT or to the telecommunications industry in general, BT is subject to competition law of general application.

The Director General is investigating a complaint, made by a leading cellular service provider, alleging cross-subsidy of, and undue preference to, service providers owned by cellular operators or their parents, and abuse of monopoly power. The complaint has been taken up with all companies which have some degree of ownership of both service providers and cellular network operators. This includes BT, which owns 60 per cent. of Cellnet and is also a service provider. BT has provided financial and other information to the Director General to enable him to investigate the complaint. BT cannot foresee the outcome of the investigation although BT does not expect it to have a material impact on BT's business as a whole.

The Director General has requested that BT provide certain information relating to allegations of anti-competitive prices in the UK in relation to part of BT's data services. Information has been supplied by BT in relation to these allegations and the Director General's enquiries are continuing. BT cannot foresee the outcome but believes it is unlikely to be material.

In November 1991, BT received a request from the OFT for information about the business of UK Yellow Pages, which has been supplied. The OFT's enquiry, under legislation relating to monopolies and anti-competitive practices, was concerned with reviewing the UK market for directory advertising services, in which Yellow Pages is an important participant. On 18th June, 1993, the OFT notified BT that, in the light of complaints from various individuals and organisations, and following consultation with the Director General of Telecommunications, the OFT was seriously considering making a monopoly reference of printed telephone directories, including Yellow Pages, to the MMC. A decision is not expected before late July 1993. BT does not have full knowledge of the OFT's concerns and is therefore unable to assess the grounds on which such a reference might

be made, the issues which might be put to the MMC, or the likely outcome. However, BT believes that it is possible that the outcome of such a reference, particularly in the light of the enquiries of the Director General into the provision of directory information services referred to below, could be material.

In May 1993, BT was informed that the Director General was initiating enquiries into the provision of directory information services. This study includes consideration of the terms on which BT provides access to its numbering information database and of the way in which directory information is presented to the customer. BT cannot foresee the outcome of these enquiries, which of themselves BT would not consider likely to be material, but the notification by the OFT referred to above increases their significance.

The European Commission is examining the arrangements of operators within the EC governing prices and accounting rates for international telephone calls under its powers to investigate potential infringements of the EC's competition rules. BT has responded to a fact-finding letter from the European Commission on this subject. The Commission's investigations are continuing, but BT does not expect the eventual outcome to have a material impact on BT's business as a whole.

Following the publication in November 1992 of a Green Paper entitled "Abuse of Market Power", HM Government announced in April 1993 that it intends to strengthen existing UK legislation relating to monopolies and anti-competitive practices, rather than introduce a general prohibition system on the abuse of market power. This proposal would extend the powers of investigation and enforcement under the existing legislation. The effect on BT cannot be assessed but is not expected by BT to be material.

Competition

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. Entry to the market for the supply of telecommunications equipment is unrestricted and the supply of equipment to customers has become highly competitive.

From the time Mercury Communications Limited ("Mercury"), a subsidiary of Cable and Wireless plc, commenced services, BT has faced direct competition in the provision of switched voice telephony and data services, particularly in serving business customers. The duopoly policy in place from 1983 until 1991 allowed only BT and Mercury to provide national fixed-link telecommunication services to the public. Since the review of that policy in 1991, HM Government has followed a policy of not restricting entry into the market for UK services and networks. See "Market entry" below.

Mercury launched its competing switched telephone service in May 1986, giving increasing numbers of customers in the UK 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. Certain market share information relating to BT and its competitors is included in "Competition" in Part 5.

With respect to mobile telecommunication services in the UK, HM Government has sometimes licensed existing participants in the UK telecommunications market and, in other cases, has expressly excluded existing licensees from participating in new services. Although BT has a majority share in Cellnet, the Company itself is prohibited from providing mobile services under the Licence and it was excluded from participating in the three consortia licensed in July 1991 by HM Government to operate PCNs. PCNs are intended to compete with existing mobile networks (using different radio frequencies), and also with fixed networks (including BT's local network). One of the two remaining consortia is expected to begin service in 1993. Under its cellular telecommunication licence, Cellnet will, however, be able to provide services similar to those expected to be provided by PCN operators.

The use of UK private circuits and exchange lines provided by any public telecommunications operator, including BT and Mercury, has been unrestricted since November 1989. BT expects that the removal of the restrictions on the use of UK private circuits, and the growth of international simple resale described in "Overseas regulation" above, will result in some diversion of demand and revenues from its public switched network.

Market entry

In 1991 HM Government stated that it would consider applications from any number of applicants for licences to offer public fixed-link UK local and long-distance telecommunication services, in accordance with the policy it outlined, with a general presumption in favour of applications being granted. It has also agreed to allow cable television companies to provide local fixed-link services, as described in "Cable television and mobile services" below.

HM Government also decided in 1991 to end the duopoly policy in respect of international operators, but announced that it was unlikely to grant any new licences in the short term. However, this does not preclude the provision of international simple resale between the UK and those countries where the regulatory regime has been designated by HM Government as equivalent to that in the UK.

To date, there have been around 60 applications for new telecommunication licences, around 20 of which have been granted; the remainder are pending, including an application from AT&T, discussed below. Applications have covered a variety of activities, including local, long-distance and international telephony and international simple resale. Licences granted in some cases allow licensees to offer a full range of services in the UK. None of the new or draft licences has the same universal service obligation or fair trading conditions as the BT Licence and, even where the licensee is or is to be a public telecommunications operator, the regulation of the licensee's activities is limited until the licensee achieves a 25 per cent. market share.

AT&T has recently applied for a public telecommunications operator licence permitting the provision of UK switched voice and data services, private line services and international simple resale service. If the licence is granted, and if both the UK and US governments authorise international simple resale between the two countries, AT&T will be able to provide a wide range of telecommunication services between customers in the UK and the US.

Until such time as the new licensees have commenced operations, it is difficult for BT to predict the effect on its business. However, many of the licensees are large companies with substantial financial resources (and in the case of AT&T, significant telecommunications experience), and they propose to operate in many of BT's key markets. The likely effect on BT of the successful implementation of their plans is expected to be a reduction in BT's market share, with consequential effects on revenues, offset to some extent by income from payments made by newly licensed operators to interconnect with the BT network.

Cable television and mobile services

BT is restricted by Government policy and provisions in its Licence in its ability to compete in two main areas, the conveyance and provision of cable television services over its nationwide public network and the provision of mobile services.

The Company is allowed to apply for cable television franchises only through a subsidiary or affiliate until 31st March, 1994; thereafter, it will be allowed to tender in its own right for a local delivery service licence for any part of the country not at that time covered by a cable or local delivery licence. HM Government intends not to allow BT or other national public telecommunications operators to provide broadcast television delivery services to homes 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 broadcast television programme services to homes and HM Government does not intend to remove this restriction until 2001, although this may be reviewed in 1998. The Company may, however, convey television programme services within its network and to business customers.

UK broadband cable television operators, several of which have US and Canadian telephone companies (with significant telecommunications experience and financial resources) as substantial investors, are being allowed to offer voice telephony services independently of the Company or Mercury and to provide the services on an integrated basis with their entertainment services. They are also allowed to link adjacent franchises to provide telecommunication services over a wider area, and may apply for licences to interconnect between non-adjacent franchise areas in the same way as any prospective new entrant.

In addition, while operators of fixed links, including the Company, will still not be allowed to provide mobile services, HM Government has published, and obtained public comment on, a draft licence for Vodafone enabling it to offer fixed services. HM Government is considering a similar application from Cellnet.

The Company believes these restrictions give a competitive advantage to cable television operators, the effects of which are significant in those areas where they are operating, and to mobile operators and will become more significant as the operators develop their services.

Interconnection

The Company operates under interconnection agreements with Mercury and a number of other licensed operators, including cellular and cable television operators, and is in negotiation with others. Interconnection with Mercury is on the terms of an agreement which followed a determination by the Director General in 1985 and was amended as a result of further determinations in 1988 and 1989 and by mutual

agreement between the parties. In June 1992, because they could not agree on appropriate revisions to their existing interconnection agreement, BT and Mercury jointly asked the Director General to review terms of that agreement related to charging and access deficit contributions. This review is expected to be concluded in 1993.

On 25th June, 1993, BT published its proposals, foreshadowed in the March 1993 application to the FCC, for the publication of a standard interconnect price list for the services and facilities commonly required by operators seeking interconnection of their systems with BT's network. In particular, BT proposes that prices for services which other operators can only obtain from BT would be agreed by the Director General, while prices for other services would be set by the Company. This move from a requirement of individually negotiated charges to published standard charges would require amendment of the Licence. The Director General in his consultative document on interconnection and accounting separation welcomes in principle the proposal that BT should publish standard interconnect charges but states that he does not consider that his agreement to the charges should be a precondition of publication. He considers that he should retain his power to determine interconnection agreements on a case by case basis to enable the views of other operators to be taken into account and that standard charges should evolve from a combination of actions, one of which would be publication by BT.

Interconnection and accounting separation

In June 1992, the Director General issued a statement on separate accounting and interconnection, in which he proposed the introduction of separate accounting between BT's different activities to ensure transparency and non-discrimination. He said; however, the intention was not to separate BT into different companies. He argued that interconnection is the key to the development of competition, but that current interconnection arrangements present problems in terms of inequality of bargaining power, lack of published information and the relationship between BT's "wholesale" and "retail" prices. He said that arrangements would need to be put in place to expose the costs relating to each of BT's activities, to ensure that services provided by one part of BT's business to another were offered on similar terms to non-BT businesses and to demonstrate that BT was not pricing unfairly. He also proposed that BT should provide more information about its network to other operators. The Director General commissioned a study by outside consultants, who produced an interim report in December 1992.

On 8th June, 1993, the Director General published a consultative document on interconnection and accounting separation. In the document the Director General proposes that, in order to facilitate interconnection, BT should publish separate audited financial statements for new accounting entities within its existing corporate structure for what he describes as network, retail and access "businesses". The separated financial statements would be based on a transparent cost apportionment methodology, the principles of which would be laid down by the Director General according to what he describes as "generally accepted cost apportionment practice" which would be applied consistently, and would disclose the cost of network components made available to competitors through interconnection. It is also proposed that BT should establish and publish internal transfer charges and ensure that these and other terms of service, including quality, are not "unduly discriminatory" compared

with interconnection terms available to BT's competitors. The document makes it clear that in normal circumstances it is likely that interconnection prices for the network would be set at fully allocated cost including a reasonable return as provided for under the Licence, unless BT's own transfer prices were set on a different basis. When BT introduces or changes a price, including "special offers" or "volume discounts", it is proposed that BT should publish its internal transfer charge and its implicit access deficit contribution and make similar charges available to interconnecting operators, and the Director General intends to propose in the very near future a Licence modification to give effect to this proposal. The Director General states that he believes that the timetable set out in the June 1992 statement for publication of the first separated profit and loss accounts and balance sheets in respect of the 1994 financial year should still be pursued, while recognising that not all of the information might be available by the end of that year.

In the consultative document, the Director General confirms that he is not seeking a structural separation of BT. He also confirms that, on the information currently available to him, he would not intend to re-open the retail price controls agreed for August 1993 to July 1997. See "Prices - Public switched telephone services" below. The consultative document suggests, however, that in order to preserve the incentive effects of the price control, it may be necessary to introduce a separate control on BT's wholesale prices after 1997. Moreover, because BT's retail tariffs (which are averaged across the UK) are not directly aligned with its costs, the consultative document recognises that an issue arises for the determination of interconnect charges. The consultative document confirms that while tariff structures might be expected to become aligned with costs over time, for such a change to occur immediately is not regarded by the Director General as being desirable, and that he believes that, in the determination process, he should calculate network charges in a way that does not create undue distortions between network charges and retail tariffs. The document suggests that since reductions in charges would be appropriate in some circumstances, increases might be necessary in either specific charges or the average level of charges to allow cost recovery. The Director General seeks further comment on this approach, the principles on which BT's cost apportionment methodology should be based, and the accounting requirements for the preparation of the network, retail and access financial statements.

It is proposed that these new regulatory controls shall apply only to BT, at least until a competing operator has significant market power, and the Director General seeks views on how market power should be measured for this purpose.

BT believes that the current interconnection arrangements lack transparency and certainty and are a deterrent to the development of fair competition. Accordingly, BT published its own proposals on 25th June, 1993. See "Interconnection" above. BT broadly agrees with the fundamental criteria set out in the Director General's consultative document, which he seeks to meet through interconnection arrangements. However, BT believes that the Director General's approach runs counter to the principle of allowing competition to substitute progressively for regulation, and will not provide certainty of interconnection charges. BT believes that, in a market where it considers that other operators already enjoy considerable market power, there will not be adequate transparency, or sufficient safeguards against non-discrimination, without regulation which applies with equal force to

all such operators.

BT believes that the Director General's proposals would bring additional burdensome and costly accounting and disclosure obligations (with involvement of the Director General in BT's accounting methods), commercial advantages to competitors from availability of BT information, and some new constraints on BT's pricing freedom. BT believes that new discretionary powers are suggested which, in addition to the power to waive access deficit contributions (see "Regulation - Interconnection under the Licence" above), might enable the Director General to reduce some of BT's interconnection prices below cost, with a corresponding subsidy to competitors, though the Director General expresses his view that charges should be set at a level such that no over or under recovery of BT's costs would generally result. BT is concerned about these new powers and about new discretions in relation to cost apportionment. Until the new powers are defined and any new discretions exercised it is impossible for BT to predict the effects, but they could be material. Similarly, BT is concerned about the levels of disclosure, and about distortions to BT's business and to the structure of the markets which might emerge.

The Licence would need to be amended to reflect the proposals in the consultative document. Licence amendments would be needed, for example, to ensure internal network charges were published prior to the introduction of any new retail prices and to enable the Director General to lay down cost allocation principles and accounting requirements for different parts of BT's business. BT is concerned that the outcome of the consultative process may also be a proposed Licence amendment, which would change the fully allocated cost basis for determining interconnect charges. The amendments to the Licence can only be made with BT's consent, or without its consent following a reference by the Director General to the MMC. However, the Director General would set the terms of any reference to the MMC, which under the Telecommunications Act does not necessarily have to be confined to the issues covered in the consultative document.

Equal access and number portability

Equal access would allow customers to choose between long-distance operators with equal ease. The Director General may determine that equal access be provided subject to a cost-benefit study indicating that the gains to 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. The Director General has received a report from consultants on the methodology to be used for conducting a cost-benefit study. The Company believes that equal access, if implemented, will lead to diversion of some call volume, and hence of revenues, from its long-distance and international networks, although this would be compensated for to some extent by virtue of the requirement that competitors pay full access deficit contributions on all equal access traffic. The timetable for full equal access is uncertain and the extent to which other operators would wish to seek equal access, given that full access deficit contributions would be payable on equal access traffic, is unclear.

Number portability would enable customers to retain their numbers when changing the operator providing their telephone service where the customer remains at the same address. Subject to meeting certain specified criteria, the Director General has the power to direct BT to provide number portability, within specified geographical areas. One

of these criteria is the carrying out of a cost-benefit study, which is currently being undertaken and will be followed by a consultation period. The Company believes that, if implemented, number portability would make it easier for BT's customers to switch to an operator other than BT and thus could lead to loss of revenues. The Company is unable to assess the likely timescale for the introduction of number portability.

Prices

The Company is subject to controls over baskets of prices which have the effect within each basket of requiring it to reduce, or limiting the extent to which it can increase, the aggregate of the prices of the services within that basket. The services subject to these price controls account for the majority of the Company's revenues. However, it is not prevented from benefiting from improvements in efficiency by any limitation to a specific rate of return on capital nor is it required to obtain the prior approval of any regulatory authority for specific price changes. BT believes that, 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, by imposing specific limits in respect of particular services 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, and limits on individual services, set by the controls, subject to the pressures of competition. However, BT believes that the room for flexibility has been significantly curtailed by the new price controls that take effect on 1st August, 1993. No competing operator, including Mercury, is subject to price controls.

BT is subject to two basic sets of price controls, one on public switched telephone services, essentially call charges and exchange line rentals, and one on private circuits. 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 (referred to as "RPI minus" the fixed percentage) 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 revenues from services covered by the respective price controls in the previous financial year. Any permitted increase forgone (or excessive reduction made) in one year may generally be carried forward for up to two years. The Company is permitted to use any such increase (or reduction) when establishing its prices in future years, but may choose not to do so.

The Director General has confirmed that, on the information currently available to him, he would not intend to re-open the retail price controls agreed for August 1993 to July 1997.

Public switched telephone services

This price control formula was set at RPI minus 6.25

during each of the two years beginning 1st August, 1991 and 1992, compared with the level of RPI minus 4.5 that applied during each of the two years beginning 1st August, 1989 and 1990. International telephone call prices were brought within the price control formula from 1st August, 1991. The Company estimates that the public switched telephone services formula in effect during the 1993 financial year, which covered exchange line rentals and local, long-distance and international calls made by customers in the UK, applied to approximately 57 per cent. of BT's total revenues.

BT and the Director General reached agreement in August 1992 over the pricing arrangements for these services for the four years from 1st August, 1993 to 31st July, 1997. Following slight amendment, these arrangements were formally included in the Licence in March 1993. Under these arrangements the price control formula will be demanding; it will be increased from the current RPI minus 6.25 to RPI minus 7.5, with the basket of prices extended to include exchange line connections and takeovers of lines. No individual basket price will be allowed to increase by more than RPI minus 0, apart from exchange line rentals and certain other items. Exchange line rentals will be capped at RPI plus 2, except for rentals of wholesale lines (exchange lines used by customers for conveying calls by third parties, for which a charge is made), which will be capped at RPI plus 5. The standard connection charge has been reduced from 1st June, 1993 and rentals for permanently attached telephone instruments will be capped at RPI minus 0.

The treatment of variations from standard prices, including volume-related discounts, within the basket will change. In particular, new discount packages offered after 31st July, 1993, subsequent additions to existing packages, and increased customer take-up of existing packages after that date, can only be counted as price reductions within the basket to the extent that they compensate for reductions in packages existing at that date.

The low user scheme, for those residential customers, subject to eligibility criteria, who make little use of the telephone, will be amended to allow for a maximum rebate of approximately 60 per cent. of the current exchange line rental charge.

The price control formula for public switched telephone services and the Company's performance against the formula since 1st August, 1988 have been as follows:

Price control formula	Year commencing 1st August					
	1988	1989	1990	1991	1992	1993
	%	%	%	%	%	%
RPI movement for the relevant period (a)	4.61	3.26	9.79	5.84	3.88	(b)
RPI formula in effect	(3.00)	(4.50)	(4.50)	(6.25)	(6.25)	(7.50)
Permitted increase (required reduction) in prices (c)	2.80	3.76	5.52	(0.23)	(0.95)(d)	(b)
Actual increase (reduction) in prices overall	—	3.53	5.34	(0.73)	(0.10)(e)	(f)

Notes:

(a) Annual increase in RPI to previous June.

(b) The required reduction in prices for the year commencing 1st August, 1993 will be based on the RPI movement for the twelve months to 30th June, 1993, which is expected to be announced on 16th July, 1993. The RPI movement for the twelve months to May 1993 was 1.3 per cent.

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

(d) After adjustment for a shortfall in directory assistance revenue in the years commencing 1st August, 1990 and 1991.

(e) Reductions implemented to 25th June, 1993; a further reduction of 0.94 per cent. will be implemented on 1st July, 1993, making a total reduction of 1.04 per cent. for the year.

(f) Price changes for the year commencing 1st August, 1993 not yet determined.

For a discussion of the effect of price controls on the Company's financial performance, see Part 5, "Financial review".

Private circuits

Since 1st August, 1989, a separate price control, fixed at RPI minus 0, has applied to prices for UK private circuits. Prices for international private circuits became subject to this control on 1st August, 1991, with the current control remaining in force until 31st July, 1993. The Company estimates that the private circuit formula applied to approximately 7 per cent. of BT's total revenues in the 1993 financial year.

Under the proposed new price control for private circuits to apply from 1st August, 1993 to 31st July, 1997, there will be three separate private circuit baskets: national analogue circuits, national digital circuits, and international circuits. Each basket will have a price control formula of RPI minus 0, with separate sub-controls of RPI plus 2 on any analogue circuit and RPI plus 1 on any digital circuit.

1993 price changes

In December 1992, BT announced price changes, which took effect from January 1993. While the prices of UK and international direct dialled calls were left unchanged (or reduced, in the case of the majority of calls to North America), exchange line rentals were increased by an average of 5.9 per cent. in accordance with BT's policy of rebalancing. Improved volume discounts on call charges were also introduced. On 3rd June, 1993, BT announced further price changes, which will take effect on 1st July, 1993. The prices for the majority of direct dialled calls to North America and continental Europe are to be reduced by between 5 per cent. and 10 per cent. and further volume discounts on calls will be made.

The effect of these changes will be an overall reduction in the prices of the Company's main services of 1.04 per cent., compared with an increase of 3.88 per cent. in the RPI in the year to 30th June, 1992.

5. Financial review

Percentage changes in earnings per Share in this Part 5 are calculated using the unrounded figures that result from dividing profit attributable to ordinary shareholders by the average number of Shares outstanding during the period. References in this Part 5 to "\$" are to US dollars.

Introduction

During recent financial years, BT's financial performance has been adversely affected by a tight regulatory regime in the UK, growing competition and the state of the UK economy. BT has responded to these factors by investing in network modernisation, taking action to control its operating costs and restructuring the Group.

The Group's earnings per Share in the 1993 financial year of 19.8 pence were 40.5 per cent. lower than in the previous financial year. In addition to the factors stated above, the Group's 1993 financial results were adversely affected by the costs of BT's workforce reduction programme, the net loss arising on disposals of subsidiary companies and the premium paid on a repurchase of bonds held by HM Government.

BT's workforce reduction programme has been a major part of management's emphasis on controlling costs. This programme has been facilitated by network modernisation and by the restructuring of the Group which has separately led to a reduction in managers and other professional people employed by BT. In the 1993 financial year, the Group incurred employee redundancy charges of £1,034 million in respect of BT's workforce reduction programme, consisting of the cost of providing incremental pension benefits to early retirees of £550 million and direct severance costs of £484 million. In addition to these amounts, the Group utilised the remainder of the restructuring provision of £133 million in paying direct severance costs in the context of the restructuring of the Group.

In the 1993 financial year, the Group incurred net losses totalling £132 million on the disposals of its interests in Mitel and three other subsidiary companies ("the divested subsidiary companies"), as part of BT's strategy of concentrating its activities on providing telecommunication networks and network-related services. Although the divested subsidiary companies did not have a significant impact on the Group's profit attributable to ordinary shareholders, their disposal had the effect of reducing total revenues and total operating costs when comparing the 1993 and 1992 financial years. BT also expensed a £56 million premium paid on the repurchase of bonds held by HM Government with a face value of £320 million.

Earnings per Share, excluding employee redundancy charges, the loss on disposal of subsidiary companies and the premium paid on repurchase of bonds, were 1.2 per cent. higher in the 1993 financial year as compared to the 1992 financial year.

Total operating costs as a percentage of total revenues increased from 74.4 per cent. in the 1992 financial year to 81.5 per cent. in the 1993 financial year. Excluding employee redundancy charges and the revenues and costs of the divested subsidiary companies, operating costs as a percentage of total revenues were virtually the same in the 1992 and 1993 financial years. The Group continued its emphasis on the control of operating costs, albeit with significant short-term costs resulting from workforce reductions in the 1993 financial year when the number of employees fell by approximately 39,800, following a reduction of approximately 16,400 in the previous financial year.

The results for the 1992 and 1993 financial years are summarised in the table below:

Profit and loss accounts	Year ended 31st March		Decline %
	1992 £m	1993 £m	
Revenues	13,337	13,242	(0.7)
Operating costs (before employee redundancy charges)	(9,892)	(9,759)	(1.3)
Employee redundancy charges	(30)	(1,034)	
Operating profit	3,415	2,449	(28.3)
Loss on disposal of subsidiary companies	—	(132)	
Employee share ownership scheme	(38)	(33)	
Interest income	258	251	
Interest expense	(562)	(507)	
Premium on repurchase of bonds	—	(56)	
Profit on ordinary activities before taxation	3,073	1,972	(35.8)
Tax on profit on ordinary activities	(999)	(724)	
Profit on ordinary activities after taxation	2,074	1,248	(39.8)
Minority interests	(30)	(28)	
Profit attributable to ordinary shareholders	2,044	1,220	(40.3)
Earnings per Share	33.2p	19.8p	(40.5)

BT essentially operates as a unitary business, providing an integrated range of telecommunication products and services. Accordingly, BT does not publish operating profit separately for the various sources of revenues in the table under "Revenues" below. However, BT considers that the Group's operating profit is derived predominantly from UK local, long-distance and international telephone calls, after taking account of a substantial operating deficit arising on the provision of exchange lines.

In each of the last two financial years, more than 97 per cent. of the Group's total revenues were generated by operations in the UK.

Regulation

The Group's recent financial performance should be considered in the context of a tight regulatory regime under which price controls apply to services which account for the majority of BT's revenues. Since 1984, the terms of the price control applying to BT's main services have been periodically tightened by increasing the percentage amounts of required price reductions relative to the RPI or by lowering the percentage amounts of any permitted price increases relative to the RPI, and by expanding the range of services covered by price controls. In the 1991 financial year, BT was required to keep the increases in prices for its main UK 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 the Group's total revenues for the 1991 financial year. In conformity with the formula, the Group increased the overall charges for its main services, excluding international calls, by 5.3 per cent. in September 1990.

Under the price control agreed with HM Government and the Director General, and in force from 1st August, 1991 until 31st July, 1993, the RPI minus 4.5 formula was changed to RPI minus 6.25 and was also extended to cover international telephone calls made from the UK. Because the RPI increased by less than 6.25 percentage points in each of the twelve month periods to 30th June, 1991 and 1992, the

Company has been required to lower its overall prices for its main UK services accordingly. In addition, the Group may not increase its prices for most private circuits, both UK and international, by more than the increase in the RPI. These price controls are estimated to have affected about 65 per cent. and 64 per cent. of the Group's total revenues for the 1993 financial year and the 1992 financial year, respectively.

In conjunction with the introduction by the Company of charges for directory assistance calls, the Company reduced the prices of UK and international calls overall by approximately 5 per cent. in April 1991. The reduction in call charges more than offset the additional revenue generated from the introduction of the charges for directory assistance calls. In September 1991, the prices of BT's main services were reduced overall by 0.7 per cent. in compliance with the RPI minus 6.25 formula. The overall reduction included average increases of around 8 per cent. in exchange line rental charges as part of the Group's policy of rebalancing charges to bring them more in line with costs, offset by a 9.6 per cent. reduction in overall prices for outgoing international telephone calls and the introduction, for the first time, of volume-related discounts. The Group raised its private circuit prices by 7.4 per cent. in December 1991 which was higher than the relevant increase in the RPI, due to the permitted carry forward of an unused allowance from previous years.

BT introduced additional price changes in January 1993. The Group reduced prices on the majority of calls to North America, while leaving the prices of UK and other international direct dialled calls unchanged. At the same time, BT increased exchange line rental charges by an average of 5.9 per cent. in accordance with its rebalancing policy. The Group also introduced improved volume discounts on call charges. The effect of these changes was an overall reduction in the prices of the Group's main services of 0.1 per cent. In order to comply with the RPI minus 6.25 formula, BT has announced further price reductions of 0.94 per cent. overall, to take effect in July 1993, by reducing prices further on the majority of direct dialled calls to North America and continental Europe and by introducing further improved volume discounts on call charges. The Group raised its private circuit prices, under a separate price control, by 1.8 per cent. in January 1993.

Further tightening of the price control to RPI minus 7.5 will take effect from 1st August, 1993 and will continue for four years. See "Prices" in Part 4. If the RPI at June 1993 shows an annual increase at the same rate as the 1.3 per cent. increase experienced for the twelve months to May 1993, then the RPI minus 7.5 formula will require the Group to reduce prices, during the year commencing 1st August, 1993, by at least 6.2 per cent. on approximately 59 per cent. of the 1993 financial year revenues. From 1st August, 1993 the treatment of volume-related discounts will change; further discount packages offered after 31st July, 1993 cannot generally be counted towards the price reduction required by the RPI minus 7.5 formula.

BT believes that the regulatory environment in which it operates is now detailed, specific and restrictive. The price control formula has been tightened, the number of services covered has been expanded, and BT's ability to rebalance has been constrained. The regulatory environment has had, and will continue to have, an increasingly significant adverse impact on the Company's revenues and operating profit. See

Part 4, "Regulation, Competition and Prices" for a discussion of the price controls and other regulatory issues that affect the operations of the Company.

Competition

Competition continues to increase in all major areas of BT's business. BT estimates that in the 1993 financial year it had an 87 per cent. share of the UK business market for telephone calls and provision of exchange lines, compared with an estimated 90 per cent. in the 1992 financial year, 94 per cent. in the 1991 financial year and approaching 100 per cent. in the 1984 financial year. However, competition has eroded BT's market share significantly more in particular areas of the UK and for certain products and services.

BT estimates that it had 76 per cent. of the market for international telephone call services in the 1993 financial year, 79 per cent. in the 1992 financial year, and 85 per cent. in the 1991 financial year, compared to 100 per cent. in the 1984 financial year. Customer premises equipment supply is highly competitive, and Cellnet continues to face strong competition from its current sole competitor, Vodafone, which has a higher share of the UK mobile telephone market. BT expects Cellnet and its competitor to face competition from PCN operators and expects the first of the two currently licensed operators to begin operations in the 1994 financial year.

The Group estimates that it had 97 per cent. of the UK residential market for telephone calls in the 1993 financial year compared to virtually 100 per cent. in the 1992 financial year. Although BT has almost all of the UK residential market for the provision of exchange lines, it is currently facing increasing competition in certain geographic areas from cable television companies, which offer integrated television and telephony services.

BT expects a continuing increase in competitive pressure in the future as a result of the more liberal licensing policy of HM Government, in particular, with respect to fixed-link telecommunications within the UK. The Group also expects that the growth of international simple resale will result in some diversion of demand and revenues from its public switched network. The individual market shares of recent entrants to the UK telecommunications industry are currently small. However, as these companies and other new entrants establish themselves, BT expects that their individual shares of the markets in which they compete, and their collective share of the overall telecommunications market, will continue to enjoy rapid growth. BT therefore believes that the overall impact of these competitors on BT will become increasingly material within the next few years. For a further discussion of competition, see "Competition" in Part 4.

UK economy

The Group's recent financial performance should also be considered in the context of the state of the UK economy. In the 1993 financial year, the gross domestic product of the UK was broadly unchanged, following declines of 2.2 per cent. and 0.4 per cent., respectively, in the 1992 and 1991 financial years. Overall demand for the Group's services began to improve slightly after the first quarter of the 1993 financial year and this slight improvement continued for the remainder of the year after static demand in the 1992 financial year.

Outlook

BT is positioned to take advantage of an upturn in the UK economy. However, the extent to which BT is able to do so will remain greatly influenced by the constraints of the price control, other regulatory restrictions and increasing competition. In August 1993, the revised price control of RPI minus 7.5 comes into force, and is expected to continue for four years, applying to services that account for the majority of BT's revenues. This level of price control will have a particularly marked effect at the current low rate of inflation. Other aspects of the regulatory regime are less predictable. In particular, BT is not able to judge the extent to which the exercise by the new Director General of his discretionary powers, or HM Government's policy of encouraging more competition, will affect BT's business. Competition will continue to increase in all major areas of BT's business, and this is likely to result in further erosion of its market share, including in some of its more profitable areas of operation.

However, to reduce the loss of business and to increase the use made of its UK network, BT has initiated additional marketing programmes and is continuing to develop new services. BT will seek to control its costs, through firm management, operational improvements and further modernisation of the network. In particular, BT is aiming to reduce the number of employees by around 15,000 in each of the 1994 and 1995 financial years, albeit at a significant short-term cost. BT will also continue, both within the UK and overseas, to explore opportunities to develop its business which complement its existing activities. These opportunities could include significant acquisitions, joint ventures and other alliances. For a description of the recently announced strategic alliance between BT and MCI, including its effect on BT's results of operations, financial position and liquidity and capital resources, see "Recent developments - Strategic alliance between BT and MCI" below.

BT believes that it has a strong financial and technological base from which to seek further improvements in efficiency and to develop its business, but that inevitable uncertainties arise from increasing competition, the UK economy and the effects of more restrictive regulation.

Results of operations - 1993 financial year

Revenues

The revenues of the Group during the last two financial years were as follows:

Revenues	Year ended 31st March	
	1992	1993
	£m	£m
UK local and long-distance telephone calls	5,111	5,095
Telephone exchange line rentals	2,117	2,233
International telephone calls	1,853	1,859
Customer premises equipment supply	1,251	1,025
Other sales and services	3,005	3,030
Total revenues	13,337	13,242
Revenues from telecommunications operators included in total	1,024	1,064

Total revenues fell 0.7 per cent. to £13,242 million in the 1993 financial year. The decline was due primarily to the disposal of subsidiary companies early in the year. Revenues, excluding those attributable to the divested subsidiary

companies, increased by 1.0 per cent. This increase was primarily the result of higher prices for telephone exchange line rentals and growth in other sales and services which were partially offset by a decrease in the revenue from customer premises equipment. Price reductions on UK local, long-distance and international calls were offset in the 1993 financial year by the positive effects of volume growth in international telephone calls and exchange rate movements on international telephone call revenues.

UK local and long-distance telephone call revenues have been static for the last three financial years. There was no UK call volume growth in the 1993 financial year. BT believes that the general lack of call volume growth was mainly a result of increased competition and the state of the UK economy.

Revenue from telephone exchange line rentals increased by 5.5 per cent. in the 1993 financial year. As part of BT's policy of rebalancing prices, prices for telephone exchange line rentals were increased by around 6 per cent. in January 1993, following an increase of around 8 per cent. in September 1991. The increased revenues in the 1993 financial year were the result of these price increases and, to a lesser extent, the growth in the UK telephone network. Total exchange line connections grew in the 1993 financial year by 1.9 per cent., of which business exchange line and residential exchange line connections grew by 1.8 per cent. and 2.0 per cent., respectively.

International telephone call revenue was static in the 1993 financial year. International call volume growth of 6.0 per cent. was attributable in part to an increase in outgoing calls and in transit traffic through the UK. Call volume growth and the weakening of the pound sterling against other major currencies each had the effect of increasing revenues. However, these increases were mostly offset by price reductions on outgoing calls and continuing reductions on some incoming calls. The weakening of the pound sterling has not materially affected the Group's financial performance, because it has caused only minor imbalances between payments to and payments from overseas telecommunications operators. See "Operating costs" and "Other matters - Foreign currency exposure" below.

Revenue from the supply of customer premises equipment declined 18.1 per cent. in the 1993 financial year. Excluding the effect of divesting Mitel, revenue from the supply of customer equipment declined by 5.7 per cent. The contribution from increased prices was small when compared to the effects of the fall in rental and sales volumes, which BT believes was the result of the weak UK economy and continued competitive pressures.

Revenues from other sales and services increased by 0.8 per cent. in the 1993 financial year. These revenues principally include those from private circuits (including those used for data communications), mobile communications (including Cellnet), UK Yellow Pages, exchange line connections, managed network services, carrier telecommunication services to UK operators and visual communications services. Revenues from other sales and services, excluding those of the divested subsidiary companies, increased by 2.9 per cent. This increase was primarily due to growth in revenues from private circuits and mobile communications, partially offset by a fall in revenue from exchange line connections. Revenues from all other principal services in aggregate changed very little.

Operating costs

The operating costs of the Group during each of the last two financial years were as follows:

Operating costs	Year ended 31st March	
	1992	1993
	£m	£m
Payroll costs	(4,420)	(4,062)
Own work capitalised	565	473
Depreciation	(2,056)	(2,116)
Payments to telecommunications operators	(952)	(1,020)
Employee redundancy charges	(30)	(1,034)
Other operating costs	(3,168)	(3,107)
Other operating income	139	73
Total operating costs	(9,922)	(10,793)

Operating costs increased by 8.8 per cent. in the 1993 financial year. The £871 million increase was predominantly due to substantial employee redundancy charges, the effect of which was partially offset by reductions in costs arising from the disposal of subsidiary companies and the reduction in the number of employees.

The Group's programme of improving operating efficiencies, together with the Group restructuring, led to a reduction of approximately 39,800 people employed in the 1993 financial year, following a reduction of approximately 16,400 employees in the previous year. In the 1993 financial year, workforce reductions included approximately 5,400 people employed by the divested subsidiary companies. The remaining reductions, mainly under voluntary early release schemes providing special termination benefits, were spread throughout the Group. The number of people employed at 31st March, 1993 was about 30 per cent. lower than the number of people employed in March 1990 when the Group announced its restructuring programme. The reduction in people employed was the primary reason for the 8.1 per cent. fall in payroll costs in the 1993 financial year. The resulting cost reduction was significantly larger than the pay increases awarded during the year. In the 1994 financial year, payroll costs are expected by BT to be at around the same level as in the 1993 financial year, because the effect of the reductions in staff numbers anticipated in the 1994 financial year and achieved in the 1993 financial year should offset the effect of pay awards and the increase in regular pension costs. See "Other matters - Pensions" below for a discussion of future pension costs.

Own work capitalised fell 16.3 per cent. in the 1993 financial year. The fall reflected the declining level of investment in transmission equipment and telephone exchanges in that year and also the reduced number of employees.

The depreciation charge rose by 2.9 per cent. in the 1993 financial year, following the major and recent investment in BT's network. See "Other matters - Asset lives" below for a discussion of the impact that changing asset lives will have on future depreciation.

Payments to telecommunications operators, both overseas and other UK companies, grew by 7.1 per cent. to £1,020 million. This reflected the growth in international traffic and in competing UK networks, compounded by the weakness of the pound sterling against other major currencies but partially offset by reduced prices. See "Other matters - Foreign currency exposure" below for the effect of movements in foreign exchange rates on the Group's financial performance.

Employee redundancy charges totalled £1,034 million in

the 1993 financial year. These expenses consisted of the cost of providing incremental pension benefits to early retirees of £550 million and direct severance costs, primarily severance payments and payments in lieu of notice, of £484 million. In addition to employee redundancy charges, costs of £133 million were charged against the remainder of a provision of £390 million established in the 1990 financial year for restructuring the Group's organisation and refocusing its operations. These costs were primarily direct severance payments to managers and other professional people who left in the context of this restructuring. In the 1992 financial year, costs of £102 million were charged against this provision. Additional employee redundancy charges in the 1992 financial year totalled £30 million, reflecting the fact that most of the people leaving in that year left in the context of the restructuring of the Group.

The Group is aiming to reduce the number of employees by around 15,000 during each of the 1994 and 1995 financial years and expects that these reductions will be achieved by the use of voluntary release schemes. The Group estimates that these reductions will cost around £500 million in each financial year including the cost of providing incremental pension benefits for early retirees, estimated at around £250 million in each financial year.

Other operating costs include the maintenance and support of the networks, property occupancy costs, and the cost of customer premises equipment sold and rented. Other operating costs fell by 1.9 per cent. in the 1993 financial year, but excluding those of the divested subsidiary companies, increased by 1.3 per cent. Firm control of costs continued to be exercised throughout the Group in the 1993 financial year, largely containing other operating costs at 1992 levels. The expense for bad and doubtful accounts receivable decreased by £32 million to £174 million in the 1993 financial year.

Other operating income largely consisted of compensation from third parties requiring BT plant to be relocated and the net profits or losses from property and equipment disposals. In the 1993 financial year, other operating income fell by £66 million to £73 million, largely due to the effects of property transactions.

Operating profit

Operating profit for the 1993 financial year of £2,449 million was £966 million (28.3 per cent.) lower than in the 1992 financial year.

Disposal of subsidiary companies

The net loss of £132 million in the 1993 financial year arose from the disposal of the Group's interests in the divested subsidiary companies. The loss included goodwill of £127 million which had been written off to retained earnings in prior years.

Interest

Interest income in the 1993 financial year decreased to £251 million, from £258 million in the previous year. The decrease was mainly due to the effects of lower interest rates in the 1993 financial year and the receipt in the 1992 financial year of interest on tax previously overpaid, partially offset by the effect of the higher level of short-term investments held.

Interest expense for the 1993 financial year declined to £507 million, from £562 million for the 1992 financial year. The decline substantially reflected the reduction in long-term debt but was not significantly affected by lower interest rates

because the majority of the Group's long-term debt is subject to fixed interest rates. In both the 1992 and 1993 financial years, cash inflows from operating activities and lower cash outflows on capital expenditure allowed the Group to repay outstanding debt.

In the 1993 financial year, the Group expensed a premium of £56 million paid on the repurchase of bonds held by HM Government. The Group paid £376 million for the bonds, which had a total face value of £320 million, in December 1992 when HM Government auctioned a portion of its portfolio of privatised companies' bonds and loan stock.

Tax on profit on ordinary activities

Tax on profit on ordinary activities for the 1993 financial year of £724 million compares with £999 million for the 1992 financial year. Tax as a percentage of profit before taxation was 36.7 per cent. compared to 32.5 per cent. for the 1992 financial year. In the 1993 financial year, the difference between the UK statutory tax rate of 33 per cent. and the higher effective tax rate was primarily due to the loss on disposal of subsidiary companies and the premium paid on the repurchase of bonds held by HM Government, neither of which is deductible for tax purposes. Tax on profit on ordinary activities for both years benefited from reductions in the amounts that had been provided in previous years. The reductions in the amounts provided were a result of revised estimates.

Minority interests

The minority interests for the 1993 financial year of £28 million and for the 1992 financial year of £30 million almost entirely consisted of the outside interest in the profit on ordinary activities after taxation of the Cellnet subsidiaries.

Liquidity and capital resources – 1993 financial year

Operating, investing and financing

The cash flows of the Group during the last two financial years were as follows:

Cash flows	Year ended 31st March	
	1992	1993
	£m	£m
Net cash inflow from operating activities	5,710	5,127
Net cash outflow from returns on investments and servicing of finance	(1,210)	(1,245)
Tax paid	(837)	(975)
Net cash outflow from investing activities	(2,938)	(1,756)
Net cash inflow before financing	665	1,151
Net cash outflow from financing	(116)	(1,017)
Net increase in cash and cash equivalents (a)	549	134

Note:

(a) Cash and cash equivalents comprise cash and short-term investments with original maturities of three months or less, offset by bank overdrafts and other short-term borrowings repayable within three months from the date the advance was made.

Net cash inflow from operating activities in the 1993 financial year amounted to £5,127 million compared with £5,710 million in the previous year. The £583 million decrease was largely due to increased severance payments and payments in lieu of notice as a result of the significant workforce reductions in the period.

Net cash outflow from returns on investments and servicing of finance for the 1993 financial year was £1,245 million, compared with £1,210 million in the 1992 financial

year. The Group benefited from increased levels of interest receipts and slightly lower interest payments in the 1993 financial year, but these factors were offset by higher dividend payments and the premium paid on the repurchase of bonds held by HM Government.

Net cash outflow from investing activities in the 1993 financial year amounted to £1,756 million, down from £2,938 million in the 1992 financial year. The 40.2 per cent. decrease was the result of lower capital expenditure and increasing amounts received on the sale of short-term investments in comparison to the amounts spent on the purchase of short-term investments. The Group received £327 million more than it spent during the 1993 financial year on such transactions as compared to net investments of £416 million in the 1992 financial year. BT views these short-term investments as funds available for use in the Group. Cash expenditure on property, plant and equipment totalled £2,148 million in the 1993 financial year, in comparison with £2,565 million in the previous year.

Net cash outflow from financing activities in the 1993 financial year amounted to £1,017 million compared with £116 million in the 1992 financial year. The higher net cash outflow in the 1993 financial year was mainly due to the repayment of debt including the repurchase of bonds held by HM Government with a face value of £320 million.

In the 1993 financial year, the Group raised no new debt compared with £8 million raised in the 1992 financial year. Debt repaid amounted to £1,070 million, compared to £155 million in the previous year. The Group received £53 million and £32 million from the exercise of options by employees in the 1993 and 1992 financial years, respectively.

In the 1994 and 1995 financial years, £197 million and £701 million respectively, of long-term debt is scheduled to fall due for repayment. The repurchase of bonds held by HM Government in the 1993 financial year will result in lower than previously expected interest obligations in the 1994 and 1995 financial years. The Group's interest obligations on its existing long-term debt are expected to be around £350 to £400 million in the 1994 financial year and around £330 to £370 million in the 1995 financial year, depending on interest rate levels, without taking account of interest on any borrowings required for the proposed investment in MCI. See "Recent developments - Strategic alliance between BT and MCI" below. These existing debt and interest obligations are expected to be repaid or refinanced from a combination of net cash inflows from operating activities, funds released on the maturity of existing short-term investments and, if appropriate, new long-term debt.

Dividends per Share, paid and proposed, in respect of the 1993 financial year were 15.6p, excluding the associated tax credit, compared with 14.4p paid in respect of the 1992 financial year, representing an increase of 8.3 per cent. See "Dividends" in Part 8 for a summary of the net amounts of the dividends per Share and a discussion of the associated tax credit.

Capital resources

In the 1993 financial year, cash and short-term investments with original maturities of less than three months increased by a net amount of £4 million, the remaining short-term investments decreased by £259 million and total borrowings decreased by £998 million.

At 31st March, 1993, the Group had cash at bank and in hand and short-term investments of £1,966 million. At that date, £145 million of short-term debt was outstanding.

In addition, the Group had unutilised committed short-term bank facilities available amounting to approximately £590 million, which were in support of a commercial paper programme and also available for general corporate purposes. The Group also had substantial uncommitted short-term bank facilities.

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

The ratio of net debt (borrowings net of cash at bank and in hand and short-term investments) to ordinary shareholders' equity and minority interests was 14.3 per cent. at 31st March, 1993, compared with 21.1 per cent. at 31st March, 1992, primarily reflecting the reduction in net debt from £2,505 million at the end of the 1992 financial year to £1,762 million at the end of the 1993 financial year. The ratio of gross debt to shareholders' equity and minority interests was 30.3 per cent. at 31st March, 1993, compared with 39.8 per cent. at 31st March, 1992.

The estimated fair value of the Group's long-term debt, excluding finance leases, at 31st March, 1993 was £4,217 million in comparison with its carrying amount of £3,558 million. The difference between the fair value and the carrying amount was due to the significantly higher fixed rates of interest on this debt in comparison to the market rates in effect on 31st March, 1993 for instruments of a similar maturity.

For a description of the effect of the strategic alliance between BT and MCI on BT's liquidity and capital resources, see "Recent developments - Strategic alliance between BT and MCI" below.

Capital expenditure

Capital expenditure on property, plant and equipment totalled £2,155 million in the 1993 financial year, in comparison with £2,446 million in the previous year.

The decline in capital expenditure was largely due to lower expenditure on UK transmission equipment and telephone exchanges, continuing the trend since the peak in the 1990 financial year. Expenditure on transmission equipment, mainly on the continuing renewal, modernisation and expansion of the transmission network, fell by £338 million to £835 million in the 1993 financial year. Expenditure on telephone exchanges declined to £545 million in the 1993 financial year, down from £722 million in the 1992 financial year. Expenditure on motor vehicles and other assets rose by £141 million to £272 million, largely as a result of a programme to upgrade BT's van and car fleet.

At 31st March, 1993, the Group had outstanding commitments for capital expenditure on property, plant and equipment for the 1994 financial year and thereafter of £2,827 million. The Group expects capital expenditure in the 1994 financial year to be at a level similar to that in the 1993 financial year and to be concentrated on the continuing renewal, modernisation and expansion of the Group's network. Expenditure for expanding BT's international operations in managed network services and outsourcing services is expected to constitute a greater share of total capital expenditure over the next few years, but the extent of the expenditure is dependent, in part, upon the future development of these services. See "Recent developments - Strategic alliance between BT and MCI" below. BT expects that future capital expenditure will be provided from net cash inflows from operating activities supplemented, if appropriate, by external financing.

Other matters

Pensions

The Group's two main pension funds were merged on 1st January, 1993 without affecting members' benefit entitlements. The results of an actuarial valuation made for the purposes of determining the Group's future pension expenses, of the merged pension fund as at the date of merger, revealed the scheme to be in deficit by approximately £750 million, with assets of the fund at £13,440 million covering 95 per cent. of the fund's liabilities, in contrast to an asset coverage, in aggregate for the two pension funds, of 109 per cent. at 31st March, 1992. The decline in asset coverage was caused by a combination of three principal factors: the cost of providing incremental pension benefits to early retirees in the period, the impact of recession on the returns achieved on the funds' investments and the consequences of HM Government's proposed reduction in the associated tax credit on future dividend income announced in its March 1993 Budget. See "Dividends" in Part 8.

In view of the pension fund deficit, the cost of £550 million relating to the incremental pension benefits for early retirees was expensed in the 1993 financial year.

From 1st April, 1993, the annual pension cost based on the January 1993 valuation is expected to increase by approximately £90 million to around £250 million. This amount excludes the cost of providing incremental pension benefits for early retirees, which BT expects to be around £250 million in each of the 1994 and 1995 financial years and to be recognised as part of employee redundancy charges.

As regards cash funding, the Company has resumed payment of regular contributions in respect of all active members of the pension fund from 1st April, 1993. BT expects that these will amount to £250 million to £300 million in the 1994 financial year. In addition, the Company intends to make contributions to the pension fund totalling £800 million in the 1994 financial year, the first tranche of which, amounting to £267 million, was paid on 28th May, 1993. Contributions will be charged against the £917 million pension provision as at 31st March, 1993.

Because the number of retired members in the fund is of the same order as the number of active members, BT's future pension costs and contributions will depend to a large extent on the investment income of the pension fund and could fluctuate significantly.

McCaw

In the 1990 financial year, the Group acquired approximately 20 per cent. of McCaw's total equity for a cumulative investment of £907 million. BT's share of McCaw's equity was diluted to approximately 18 per cent. in the 1993 financial year when 14.5 million shares of Class A Common Stock were purchased by AT&T, share options, mainly issued before BT's acquisition, were exercised and shares were issued on conversion of debentures. Since 31st March, 1993, the Group's interest has been further diluted to approximately 17 per cent. The Group accounts for the McCaw investment under the equity method and, at 31st March, 1993, the Group's share of its net assets amounted to £598 million.

As part of the purchase agreement between the Company and McCaw, the Company agreed, among other things, not to engage directly or, in certain circumstances, indirectly in the US in the business of acquiring, constructing or operating

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

In November 1992, BT announced a provisional agreement for the sale of its holding in McCaw to AT&T. The sale is dependent on transactions between McCaw and AT&T and the resolution of a number of legal, regulatory and other issues in the US. Any agreements are subject to negotiation of final terms and approval by the boards of directors of McCaw, AT&T and BT, as well as by appropriate government agencies. There is no assurance that the parties will reach final agreement. Under the terms of the provisional agreement between the Group and AT&T, the Group would realise about \$1.75 billion (£1.2 billion) from the sale of its holding at \$49 per share, an amount which increases at the rate of 4.5 per cent. per annum from 31st December, 1992 until the earlier of 30th September, 1993 or the closing date. If and when the sale is completed, the Group will recognise a gain, expected to be in excess of £250 million before tax.

The Group's share of McCaw's losses amounted to £17 million (including losses arising through the dilution of the Company's interest) in the 1993 financial year and £23 million in the 1992 financial year. These losses were fully offset by utilisation of part of a provision made by the Group at the time of the acquisition to cover the estimated costs of McCaw's commitments and developments in progress. As a result, McCaw's losses have not to date adversely affected the Group's results. The balance of the provision of £22 million at 31st March, 1993 will be available to offset the Group's share of McCaw's future costs, until the completion of the disposal of the Group's interest.

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, the Group 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 required to do so.

Foreign currency exposure

Most of the Group's revenues are invoiced in pounds sterling, and most of its operations and sources of materials, supplies and services are located within the UK. The majority of the Group's foreign currency borrowings, which totalled £1,485 million at 31st March, 1993, is used to finance its UK operations. Cross 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 the Group'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 mainly on the residual currency exposure on overseas investments and on any imbalances between the value of outgoing, transit and incoming international calls with overseas telecommunications operators. To date, these imbalances have been minor. As a result,

the Group's financial performance has not been materially affected by movements in exchange rates.

Asset lives

As part of its ongoing review of asset lives and in light of developing technology and the increasingly competitive environment, BT has decided to make three important changes in the estimated useful lives over which it will depreciate its plant and equipment from 1st April, 1993.

Until 31st March, 1993, digital exchanges, which had a net book value of £3,217 million at 31st March, 1993, were depreciated over ten years. This period is to be lengthened to eleven years for trunk exchanges and to thirteen years for local digital exchanges, reflecting the proven nature of this technology. BT's underground ducts, carrying its cables, which had a net book value of £2,536 million at 31st March, 1993, were depreciated over periods of forty-five or sixty years. Although they are expected to have physical lives of at least these periods, BT recognises the uncertainty caused by the changing technological and competitive environment and, accordingly, has decided to reduce from 1st April, 1993 the periods over which duct is depreciated to twenty-five years. The estimated useful lives of small and medium computers, together with their ancillary equipment, which had a net book value of £295 million at 31st March, 1993, are to be reduced by one year to three or four years in response to the rapid technological changes in computing.

BT expects that the combined effect of these and other less significant changes will be a fall of £40 million in the depreciation charge for the 1994 financial year. In each of the following two financial years, the changes are expected by BT to reduce the annual depreciation charge by approximately £100 million, with smaller effects thereafter.

Recent developments – Strategic alliance between BT and MCI

Introduction

On 2nd June, 1993, BT and MCI announced that they had signed a letter of intent to create, subject to definitive agreements approved by the boards of directors of BT and MCI, a strategic alliance which will principally involve: the creation of a new joint venture company ("NewCo"), which will enable BT and MCI to combine their international enhanced voice and data services and into which Syncordia will be merged; the investment by BT of approximately \$4.3 billion (£2.9 billion) to acquire a 20 per cent. interest in MCI, the second largest carrier of long-distance telecommunication services in the US; and the purchase by MCI of BT North America.

BT believes that the alliance with MCI will help BT towards achieving its international strategy. It will bring together the two companies' technical and marketing skills, which BT believes will facilitate the provision of improved services. The alliance will also provide BT with a significantly enhanced presence in North America through its interests in MCI and NewCo, together with more freedom to concentrate resources in its other chosen markets.

The following paragraphs describe the transactions in greater detail. This section includes a description of the possible effects of the transactions on the financial position of BT, together with selected financial data and a description of the business of MCI extracted from its report on Form 10-K for the year ended 31st December, 1992 filed with the US

Securities and Exchange Commission ("MCI's Form 10-K").

The summary of the terms of the letter of intent contained in this section does not purport to be complete and is qualified in its entirety by reference to the letter of intent, a copy of which is available for inspection. In the course of negotiations leading to the definitive agreements, terms set forth in the letter of intent may change or be supplemented.

Proposed transactions

Creation of the joint venture company

NewCo will provide BT and MCI with products and applications for international enhanced voice and data services and will provide the "global platform" (transmission, switching and other facilities) for the provision of such services. These services will include international network services, frame relay, flexible bandwidth, outsourcing and MCI's virtual private network service, as well as other products and services which BT and MCI will work together to develop. Initial discussions envisaged that NewCo would undertake capital expenditure of some \$1 billion in the medium term but further discussions could result in a change to this figure.

BT and MCI will be responsible for geographical distributorships to market jointly-branded products and services created by NewCo. MCI will act as exclusive distributor for the North, South and Central Americas and the Caribbean, while BT will act as exclusive distributor for the rest of the world including Europe and the Far East, although each of BT and MCI will be able to make passive sales in the other's territory where the customer requests. Basic voice services and basic international private circuits will continue to be handled through existing relationships with other telecommunications operators, subject to future review.

Syncordia will be merged into NewCo and certain other assets of BT and MCI, including those relating to BT's international virtual network services, will also be included, all at values to be agreed.

NewCo will be held as to 75.1 per cent. by BT and 24.9 per cent. by MCI. BT will appoint six of the eight directors of NewCo. However, the consent of MCI as minority shareholder will be required for all significant matters, including the adoption of the annual business plan of NewCo. MCI and BT will have rights of first refusal over each other's shares. BT and MCI have agreed not to compete with NewCo but issues regarding other activities of the parties remain. MCI and BT have not agreed on the circumstances of termination of the arrangements regarding NewCo nor on the consequences of such termination nor on the consequences of their activities outside the joint venture on the special rights connected to BT's investment in MCI described below. BT and MCI have agreed that if the joint venture arrangements are terminated, the exclusive distribution agreements with NewCo will terminate.

Investment by BT in MCI

BT will invest a total of approximately \$4.3 billion, at an average price of \$64 per share, to acquire such amount of common stock as would represent 20 per cent. of the enlarged share capital of MCI based on the number of shares outstanding at the time of signing the definitive investment agreement. BT's investment will be financed from its cash resources and borrowings. The quoted market price per common share on the day before the announcement of the transactions was approximately \$52. On 4th June, 1993, BT invested \$830 million (£544 million), equivalent to \$60.40 per common share obtainable on conversion, to acquire

preferred shares which are convertible, subject to regulatory clearance, into an initial 4.9 per cent. holding in MCI. The balance of the \$4.3 billion (at approximately \$65 per common share) for the remainder of the 20 per cent. holding will be paid at closing, following negotiation of final agreements and receipt of all required regulatory approvals.

For so long as BT holds at least 10 per cent. of MCI's common stock, BT will have the right to nominate a number of directors to the MCI board equal to BT's proportionate stock ownership (rounded to the next highest number). On the basis of a 20 per cent. investment, BT will have the right to nominate three directors to the MCI board of 15 directors. At least seven directors will be individuals independent of both BT and of MCI management. The remainder will be executive officers of MCI.

In addition, while BT holds at least 10 per cent. or 15 per cent., according to circumstances, of MCI's common stock, various major corporate actions of MCI will require the consent of BT. These include changes to MCI's certificate of incorporation and by-laws, raising significant capital, significant acquisitions or disposals and extraordinary dividends. To protect its investment in MCI, BT will be relying on its consent rights, which will be exercised in a manner that remains subject to agreement, and on its directors, rather than on its right to vote as a shareholder, and the definitive agreement will reflect that approach. BT may not, subject to limited exceptions, transfer its holding for four years; thereafter, so long as BT holds 5 per cent. or more of MCI's shares, certain restrictions on transfer by BT of those shares will apply including, in certain circumstances, rights of first refusal to MCI. BT believes that the proposed MCI transactions do not violate its non-compete covenant with McCaw. See "Other matters - McCaw" above.

In addition, BT will have the right to invest in further common stock to maintain its interest at 20 per cent. in the event of further common stock being issued by MCI. In view of the effective restriction, currently 25 per cent., on the level of stock that can be owned of record or voted by non-US citizens in US telecommunications companies (see "Overseas regulation" in Part 4), MCI will agree that it will not, save in certain circumstances, issue any common stock to non-US citizens after closing. BT is aware that there may be existing non-US citizens who own MCI shares but does not know the extent of such ownership.

The definitive agreement will contain standstill provisions which will prohibit BT from increasing its percentage shareholding in MCI above 20 per cent., except in certain circumstances, for ten years. MCI is required to put in place a shareholder rights plan, making it difficult for any third party to acquire more than 10 per cent. of MCI, and will be restricted from seeking purchasers for the company for seven years.

Acquisition of BT North America by MCI and other transactions

MCI will acquire the shares of BT North America, a wholly-owned subsidiary of BT, for \$125 million. The business of BT North America consists primarily of the provision of value-added data network services. BT will retain certain software and intellectual property and certain other assets currently used in the business. BT and MCI will also seek to transfer BT's telecommunications interests in Belize and MCI's telecommunications interests in New Zealand and Australia to each other or to NewCo.

Implementation and timing

The letter of intent described above requires that the parties use best efforts to reach definitive agreements to implement the transactions. There are commercial and legal issues, particularly regarding NewCo and its relationships with its shareholders, which remain to be resolved before definitive agreements may be signed. Following execution of definitive agreements BT will not be required to close the transactions if MCI suffers a material adverse change (other than as a result of changes in general business conditions, legal or regulatory changes affecting the US telecommunications industry generally or actions by an industry competitor). If such agreements are reached, the transactions will be subject to, among other things, the approval of the shareholders of MCI. In addition, regulatory clearances will be required, including clearances by the FCC in the US and by relevant competition authorities. These clearances, if obtained, may be conditional on modifications of the proposed transactions.

It is contemplated that the definitive agreements will be signed within the next few months and that the closing of the transactions will take place within the following twelve months.

On completion of the investment, Bert C. Roberts, Jr., the chairman of the board and chief executive officer of MCI, is expected to join the Board of Directors of the Company.

Effects on the financial position of BT

Following closing, BT's investment in MCI will be accounted for under the equity method.

If BT's proposed 20 per cent. investment in MCI had occurred on 31st March, 1993, BT's net debt (borrowings net of cash at bank and in hand and short-term investments) as at that date would have increased to £4,610 million compared to an actual amount of £1,762 million. The proposed investment would also have had the effect of reducing BT's ordinary shareholders' equity by £2,065 million, being the amount of goodwill arising on the investment, based on MCI's balance sheet as at 31st December, 1992 and after making appropriate adjustments, estimated in certain cases, to conform it with BT's accounting policies under accounting principles generally accepted in the UK. On this basis, the ratio of net debt to ordinary shareholders' equity and minority interests as at 31st March, 1993 would have been 45.1 per cent. compared to an actual level at that date of 14.3 per cent. These figures do not take into account the effects of the possible sale of the Group's holding in McCaw, including receipt of some \$1.75 billion (£1.2 billion) from this sale. See "Other matters - McCaw" above.

BT believes its investment in MCI will have a minimal impact on its profit attributable to ordinary shareholders in the immediate future. Based on MCI's recent dividend payments, BT expects to receive only a nominal level of dividends from its investment in MCI for the foreseeable future.

The envisaged capital expenditure of NewCo discussed above will be financed by BT and MCI in proportion to their shareholdings in NewCo. This capital expenditure encompasses BT's existing investment plans for expanding BT's international operations in managed network services and outsourcing services. See "Capital expenditure" above for a discussion of BT's capital expenditure plans.

Selected financial data of MCI

The selected financial data set out below has been extracted from MCI's Form 10-K, a copy of which is available for inspection, and is qualified in its entirety by reference to the consolidated financial statements contained therein and the accompanying notes.

MCI prepares its consolidated financial statements in accordance with accounting principles generally accepted in the US ("US GAAP"), and adopts accounting policies which differ in certain respects from those of the Group. No adjustment has been made to present MCI's selected financial data on a basis consistent with BT's accounting policies under accounting principles generally accepted in the UK.

Selected income statement data of MCI	Year ended 31st December	
	1991	1992
	\$m	\$m
US GAAP		
Revenue	9,491	10,562
Income from operations	1,091	1,211
Income before income taxes	848	963
Earnings applicable to common stockholders	522	589
Earnings per common share	\$2.01	\$2.21
Cash dividends per common share	\$0.10	\$0.10

Selected balance sheet data of MCI	At 31st December	
	1991	1992
	\$m	\$m
US GAAP		
Total communications systems, net	5,697	6,165
Excess of cost over net assets acquired, net	1,141	1,111
Total assets	8,834	9,678
Long-term debt	3,104	3,432
Total stockholders' equity	2,959	3,150

Description of MCI's business

The description of MCI's business set out below is extracted without footnotes from Item 1 of MCI's Form 10-K, which describes MCI's business from the perspective of a company in the US.

"General

MCI is the second largest nationwide carrier of long distance telecommunications services providing a wide spectrum of domestic and international voice and data communications services. MCI's communications services include long distance telephone service, record communications service and electronic mail service. During each of the last three years, more than 90 per cent. of MCI's operating revenues, operating income and assets related to MCI's activities in the long distance telecommunications industry. In August 1990, MCI acquired Telecom USA, Inc., then the fourth largest U.S. provider of long distance telecommunications services.

Long distance telecommunications services

MCI provides a broad range of domestic long distance telecommunications services, including, dial 1 access and dial access long distance telephone service; voice and data services over a software defined virtual private network; private line and dedicated line services; toll free or 800 services; and 900 services. These domestic services are marketed through three business units: a National Accounts unit responsible for large businesses and the Federal government, a Business Services unit focusing on medium- and small-sized businesses, and a Consumer Markets unit serving residential customers. The National Accounts and Business

Services units were organized in 1992, when MCI realigned its marketing approach from a geographic orientation to one focused on type of customer. To a lesser extent, MCI also markets some of these services through marketing arrangements with third parties.

MCI also provides international long distance telephone service, international record communications service and domestic and international electronic mail service.

MCI provides most of its customers access to its services through local interconnection facilities provided by local exchange telephone companies ("LECs") and, to a lesser extent, by competitive access providers ("CAPs") that carry telecommunications between MCI's operations centers and the premises of its customers. MCI provides customers that have very large volumes of communications with direct access between their facilities and MCI's facilities.

Domestic long distance telecommunications services are provided primarily over MCI's own coast-to-coast optical fiber and terrestrial digital microwave communications system and, to a lesser extent, over facilities leased from other common carriers. International communications services are provided over submarine cable systems in which MCI holds investment positions, satellites, facilities of other domestic and international carriers and through private line leased channels.

MCI's continued expansion of its digital transmission and switching facilities and capabilities to meet the demand of its customers for additional and enhanced domestic and international services, to add redundancy to its network and to enhance network intelligence, requires a high level of capital additions. These capital additions have exceeded \$1.25 billion in each of the prior three years. In 1993, MCI plans capital additions of approximately \$1.6 billion to continue the development of its communications system and services.

In 1992, MCI entered into a strategic alliance with major Canadian telephone companies to develop a fully integrated international intelligent network linking the United States and Canada. MCI also owns minority equity interests in foreign entities located in New Zealand and Australia which provide long distance telecommunications services in competition with the established long distance telecommunications service provider in those countries.

At December 31, 1992, MCI had approximately 31,000 full-time employees.

Competition

Competition in the long distance telecommunications market is intense, and MCI expects it to remain so for the foreseeable future. American Telephone and Telegraph Company ("AT&T") continues to be MCI's primary and most powerful competitor in the domestic and international long distance telecommunications services market. AT&T is substantially larger than MCI and continues to compete vigorously with MCI. In general, MCI's long distance telephone services are priced lower than the comparable services offered by AT&T. Although price is a significant factor in customer choice, innovation and quality of services, marketing strategy, customer service and other factors in addition to price are important elements affecting competition.

MCI also competes with Sprint Corporation and other facilities-based domestic communications common carriers and numerous resellers of telecommunications services. Under current Federal Communications Commission ("FCC") policy, almost any entity can freely enter the

domestic intercity telecommunications market. Where MCI is authorized to provide service within a local access transport area ("LATA"), it also competes with the local telephone company serving that LATA.

The Regional Bell Operating Companies, which are prohibited by the 1982 AT&T divestiture decree from entering the interLATA long distance telecommunications market, have attempted to obtain relief from this and other restrictions. If they are permitted to offer interLATA long distance telecommunications services, they could be significant competitors in the interLATA long distance telecommunications market.

Regulation

The FCC has extensive authority to regulate common carriers, including the power to review the rates charged by intercity common carriers and to establish policies that promote competition in the long distance telecommunications market. As part of its policy making power, the FCC required long distance carriers, effective in May 1993, to permit customers to retain their current 800 numbers when they change long distance carriers and required AT&T to permit certain large businesses using AT&T's 800 service to cancel their long term contracts for AT&T services within 90 days of the effective date of the aforementioned policy for 800 service if they desire to choose another long distance company for those services.

In September 1992, the FCC adopted a two year transition plan to restructure switched local transport access charges imposed on long distance carriers by LECs. This plan, which would permit LECs to base a portion of these charges on a flat, non-usage sensitive basis, is intended to enable both LECs and CAPs the ability to compete for long distance carriers' access business on a more equal footing while minimizing the adverse impact on long distance competition. The FCC, at the same time, also adopted rules requiring LECs to

permit CAPs and others, including long distance carriers such as MCI, to collocate facilities and equipment at LEC's offices for purposes of providing special access. These special access collocation rules will take effect in May 1993.

MCI believes that these regulatory developments will have a positive impact on its results of operations, although it is not possible to estimate what such impact will be and whether it will be significant.

In November 1992, the United States Court of Appeals for the District of Columbia Circuit overturned the FCC's "forbearance" policy which allowed MCI and other non-dominant carriers to provide some or all of their domestic common carrier services without filing tariffs with the FCC. MCI did not provide all services pursuant to filed tariffs. However, MCI has complied with the Court of Appeals order and has filed tariffs for those customized service offerings not previously provided pursuant to tariffs. MCI has at all times operated in a manner consistent with FCC policies and believes that the overturning of the FCC's policy will not have a material adverse impact on its results of operations.

Rates of international communications carriers for traffic from the United States to foreign countries are subject to regulation by the FCC. Revenues derived from international services (with the exception of leased channel services) are generally collected by the originating carrier and divided with the terminating carriers by means of agreements that are subject to FCC approval, as well as the approval of the appropriate overseas governmental agency. International communications facilities in the U.S. are also subject to the jurisdiction of the FCC, and the provision of service to a foreign country is subject to the approval of the FCC and the appropriate foreign governmental agencies.

To the extent MCI provides intrastate telephone services, it is subject to state regulatory commissions which have extensive authority to regulate the provision of such services."

6. Selected financial information

BT Group profit and loss accounts			
	1991	Year ended 31st March	
	£m	1992	1993
		£m	£m
Revenues	13,154	13,337	13,242
Operating costs (a)	(9,623)	(9,922)	(10,793)
Operating profit	3,531	3,415	2,449
Loss on disposal of subsidiary companies	—	—	(132)
Profit before employee share ownership scheme and interest	3,531	3,415	2,317
Employee share ownership scheme	(39)	(38)	(33)
Interest income	178	258	251
Interest expense	(595)	(562)	(507)
Premium on repurchase of bonds	—	—	(56)
Profit on ordinary activities before taxation	3,075	3,073	1,972
Tax on profit on ordinary activities	(995)	(999)	(724)
Profit on ordinary activities after taxation	2,080	2,074	1,248
Minority interests	—	(30)	(28)
Profit attributable to ordinary shareholders	2,080	2,044	1,220
Dividends	(818)	(888)	(967)
Retained profit for financial year	1,262	1,156	253
Earnings per Share	34.0p	33.2p	19.8p
Dividends per Share (net) (b)	13.3p	14.4p	15.6p

Notes:

(a) Including employee redundancy charges of £17 million, £30 million and £1,034 million in the 1991, 1992 and 1993 financial years, respectively.

(b) Dividends per Share exclude the associated tax credit. See "Dividends" in Part 8 and "UK taxation" in Part 11.

BT Group cash flow statements

	Year ended 31st March		
	1991	1992	1993
	£m	£m	£m
Net cash inflow from operating activities	5,470	5,710	5,127
Returns on investments and servicing of finance			
Interest received	147	198	270
Interest paid	(560)	(551)	(531)
Premium paid on repurchase of bonds	—	—	(56)
Dividends paid	(769)	(859)	(931)
Dividends received from associated companies	2	2	3
Net cash outflow from returns on investments and servicing of finance	(1,180)	(1,210)	(1,245)
Tax paid	(894)	(897)	(975)
Investing activities			
Purchase of tangible fixed assets	(2,875)	(2,565)	(2,148)
Purchase of subsidiary companies and fixed asset investments	(48)	(52)	(27)
Purchase of short-term investments	(1,490)	(1,943)	(1,936)
Sale of fixed assets	138	95	92
Sale of short-term investments	871	1,527	2,263
Net cash outflow from investing activities	(3,404)	(2,938)	(1,755)
Net cash inflow (outflow) before financing	(8)	665	1,151
Financing			
Issue of ordinary share capital	164	32	53
Minority preference shares redeemed	(1)	(1)	—
New loans	384	8	—
Repayment of loans	(208)	(155)	(1,070)
Net cash inflow (outflow) from financing	339	(116)	(1,017)
Increase in cash and cash equivalents	331	549	134

BT Group balance sheets

	At 31st March	
	1992	1993
	£m	£m
Fixed assets		
Tangible assets	15,785	15,736
Investments — note (iii)	660	735
Total fixed assets	16,445	16,471
Current assets		
Inventories	201	179
Accounts receivable, accrued income and prepayments	2,615	2,618
Investments	2,046	1,915
Cash at bank and in hand	175	51
Total current assets	5,037	4,763
Liabilities falling due within one year		
Loans and other borrowings	958	342
Other liabilities	4,229	4,099
Total liabilities falling due within one year	5,187	4,441
Current assets less current liabilities	(150)	322
Total assets less current liabilities	16,295	16,793
Liabilities falling due after more than one year		
Loans and other borrowings	3,768	3,386
Provisions for liabilities and charges — note (iv)	665	1,117
Minority interests	108	72
Ordinary shareholders' equity — note (v)		
Called up share capital	1,540	1,546
Share premium account	267	314
Capital redemption and other accounts	754	758
Retained earnings	9,193	9,600
Ordinary shareholders' equity	11,754	12,218
	16,295	16,793

Notes

(i) Sources of financial information

The Group profit and loss accounts and cash flow statements for the financial years ended 31st March, 1991, 1992 and 1993 and the Group balance sheets at 31st March, 1992 and 1993, set out above, have been derived from BT's audited consolidated financial statements for the relevant year. These statements should be read in conjunction with, and are qualified in their entirety by reference to, such consolidated financial statements.

All of the consolidated financial statements for the three financial years ended 31st March, 1993 have received unqualified audit opinions from Coopers & Lybrand, chartered accountants, BT's auditors.

(ii) Significant accounting policies

Basis of preparation

BT's financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. The Group's financial statements consolidate those of the Company and all of its subsidiary companies. Where the financial statements of subsidiary and associated companies do not conform with the Group's accounting policies, appropriate adjustments are made on consolidation in order to present the Group's financial statements 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 companies, representing the excess of the purchase consideration over the fair value of the net assets acquired, is written off on acquisition against Group retained earnings. If a company is subsequently divested, the appropriate goodwill is dealt with through the profit and loss account in the period of disposal as part of the calculation of the gain or loss on divestment.

Intangible assets

Mobile cellular telephone and broadcasting licences, held in associated companies, 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 a 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. Electro-mechanical 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 cableships	3 to 40 years

From 1st April, 1993, the lives assigned to duct transmission equipment will be 25 years, those assigned to digital telephone exchange equipment will be 11 to 13 years and those assigned to certain computer equipment will be reduced by one year. See "Asset lives" in Part 5 for a discussion of these changes.

Fixed asset investments

Investments in associated companies 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 companies is included in the Group profit and loss account.

Employee redundancy costs

Employee redundancy costs arising from periodic reviews of staff levels are charged against profit in the year in which employees leave the Group.

When the most recent actuarial valuation of the Group's pension scheme shows a deficit, the estimated cost of providing incremental pension benefits in respect of employees leaving the Group is charged against profit in the year in which the employees leave the Group, within employee redundancy charges.

Pension schemes

The Group operates a defined benefit pension scheme (formerly two schemes which merged on 1st January, 1993), which is independent of the Group's finances, for the substantial majority of its employees. Actuarial valuations of this scheme are carried out as determined by the trustees at intervals of not more than 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 any 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 from this regular cost are allocated over the average remaining service lives of current employees to the extent that these variations do not relate to the estimated cost of providing incremental pension benefits in the circumstances described under "Employee redundancy costs" above.

Interest is accounted for on the provision in the balance sheet which results from differences between amounts recognised as pension costs and amounts funded. The regular pension cost, variations from the regular pension cost, described above, and interest are all charged within payroll costs.

(iii) Fixed asset investments

The Group's most significant associated company is McCaw. At 31st March, 1993, the Group's 18 per cent. share of the net assets of McCaw, calculated in accordance with Group accounting policies, amounted to £598 million. This value comprised cellular telephone and broadcasting licences of £1,154 million and tangible fixed assets and other assets of £323 million, from which have to be deducted borrowings and redeemable preference shares and other liabilities of £857 million and £22 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. See "Other matters - McCaw" in Part 5 for a discussion of the provisional agreement for the sale of BT's interest in McCaw.

(iv) Provisions for liabilities and charges

Provisions for liabilities and charges at 31st March, 1993 included those for pensions of £917 million and deferred taxation of £105 million. Provision for deferred taxation is generally 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, 1993 amounted to £2,043 million.

(v) Ordinary shareholders' equity

Aggregate goodwill of £545 million in respect of acquisitions in previous financial years has been written off against Group retained earnings. This amount excluded goodwill attributable to businesses disposed of prior to 31st March, 1993. The share premium account and capital redemption and other accounts are not available for distribution.

(vi) Pension scheme information

Pension costs for the years ended 31st March, 1991, 1992 and 1993 were £150 million, £161 million and £161 million, respectively, which were substantially related to the Group's two main defined benefit pension schemes which were merged on 1st January, 1993.

A valuation of the Group's main pension scheme was carried out as at 1st January, 1993. The value of the assets was sufficient to cover 95 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 since that date. The market value of the scheme's assets at that date totalled £13,440 million. See Part 5, "Financial review" for a discussion of the pension scheme valuation.

Indebtedness

The net indebtedness of the Group at 31st March, 1993 was as follows:

	At 31st March, 1993	
	£m	£m
Due within one year (short-term) (a)		
- HM Government held bonds	124	
- Bank loans and overdrafts	23	
- Other borrowings	195	
		342
Due after more than one year (long-term)		
- HM Government held bonds	1,220	
- Bank loans and overdrafts	290	
- Other borrowings	1,876	
		3,386
Total borrowings		3,728
Cash and short-term investments		(1,966)
Net indebtedness		1,762

Note:

(a) Short-term borrowings include the current portion of long-term borrowings.

There has been no material change in the net indebtedness of the Group since 31st March, 1993.

Foreign currency amounts have been translated into sterling at exchange rates prevailing on 31st March, 1993.

Apart from obligations under finance leases of £25 million, all borrowings were unsecured. Loans to Group companies supported by guarantees of other Group companies have been treated as unsecured.

BT has warrants 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 £132 million.

Save as disclosed above, and apart from intra-group liabilities, the Group did not, at 31st March, 1993, 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 31st March, 1993, the Group had £590 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 £1,647 million was outstanding.

In the period from 1st April, 1993 to 25th June, 1993, the Group invested US\$830 million (£544 million) in convertible preferred stock of MCI and paid an additional pension contribution of £267 million, being the first tranche of an intended payment of £800 million in the 1994 financial year. These payments have been made out of existing cash resources. See "Recent developments - Strategic alliance between BT and MCI" for a description of the potential effects of the proposed alliance on BT's net indebtedness, and "Other matters - Pensions", both in Part 5.

7. Management

The Board of Directors of the Company is responsible for policy and strategic matters. It currently comprises an executive Chairman, two non-executive Deputy Chairmen and eleven other Directors, six of whom are non-executive. From 1st July, 1993, in addition to the executive Chairman and the two non-executive Deputy Chairmen, the Board will comprise nine other Directors, five of whom will be non-executive.

The Board has delegated, subject to its general oversight, many of its executive responsibilities to committees. Some Board committees also review appropriate policy and strategic issues before they are presented to the Board. Membership of these committees is drawn from amongst the executive Directors, the non-executive Deputy Chairmen and senior managers from within the business.

The Board also has an Audit Committee, which reviews the adequacy of the accounting systems and the financial control of the Group, and Remuneration Committees, which settle the terms of the contract of service of each Director and certain other senior employees. The Board Audit Committee and the Board Committee on Executive Remuneration are chaired by the senior non-executive Deputy Chairman (Mr. Bosonnet) and consist solely of non-executive Directors.

Directors

The Directors of the Company are as follows:

Iain D. T. Vallance Chairman (Aged 50): Appointed an executive Director in 1984. Chief executive since 1986. Chairman since October 1987. Non-executive director of The Royal Bank of Scotland Group plc.

Paul G. Bosonnet Non-executive Deputy Chairman (a)(b) (Aged 60): Appointed a Director in 1986. Non-executive Deputy Chairman since October 1991. Deputy chairman of The BOC Group plc until January 1992. Non-executive chairman of Logica plc. Non-executive director of Lucas Industries plc and Mercury Asset Management Group plc, a subsidiary of S.G. Warburg Group plc.

Michael Bett CBE Non-executive Deputy Chairman (Aged 58): Appointed an executive Director in 1984. Became a Managing Director in 1985, Vice-Chairman in 1990 and executive Deputy Chairman in October 1991. Non-executive Deputy Chairman since 1st April, 1993. Non-executive director of Compel Group PLC.

Michael L. Hefner Group Managing Director (Aged 49): Appointed Group Managing Director in September 1991. Formerly chairman and managing director of Lloyds Abbey Life plc and formerly a non-executive director of Lloyds Bank Plc.

Malcolm Argent CBE Group Director and Secretary (Aged 57): Secretary of the Company since 1984. Appointed a Director in October 1989. Non-executive director of Westminster Health Care Holdings PLC.

Anthony J. Booth CBE Managing Director, Special Businesses and International Affairs (Aged 54): Appointed an executive Director in 1984. Managing Director, Special Businesses and International Affairs since October 1992.

Barry D. Romeril Group Finance Director (Aged 49): Appointed Group Finance Director in April 1988. He will leave the Company and retire as a Director on 30th June, 1993.

Dr Alan W. Rudge OBE FRS Managing Director, Development and Procurement (Aged 55): Appointed a Director in April 1989.

Sir Eric Ash CBE FRS Non-executive Director (a)(b) (Aged 65): Appointed a Director in July 1987. Rector of the Imperial College of Science, Technology and Medicine in London. He will retire as a non-executive Director on 30th June, 1993.

Sir Ewen Fergusson GCMG GCVO Non-executive Director (Aged 60): Appointed a Director on 24th May, 1993. Former UK Ambassador to France. Non-executive director, and from 1st October, 1993 chairman, of Coutts & Co. Non-executive director of Sun Alliance Group Plc.

Sir Geoffrey Mulcahy Non-executive Director (a)(c) (Aged 51): Appointed a Director in October 1988. Chairman of Kingfisher plc. Non-executive director of Bass PLC.

Yve M. Newbold Non-executive Director (Aged 52): Appointed a Director in June 1991. Company secretary of Hanson PLC.

Sir David Scholey CBE Non-executive Director (a)(b) (Aged 58): Appointed a Director in October 1985. Chairman of S.G. Warburg Group plc. Non-executive director of the Bank of England, The Chubb Corporation and The General Electric Company p.l.c.

The Rt. Hon. Lord Tebbit CH PC Non-executive Director (a)(b) (Aged 62): Appointed a Director in November 1987. Former Member of Parliament and Cabinet minister. Non-executive director of BET PLC and Sears plc.

Notes:

(a) Member of Board Committee on Executive Remuneration.

(b) Member of Board Audit Committee.

(c) Nominated by HM Government. See Part 9, "Relationship with HM Government".

Details of the Directors' beneficial interests in Shares, as recorded in the register maintained pursuant to section 325 of the Companies Act 1985, are shown in the following table as at 25th June, 1993, together with the options over Shares held by each of them under BT's share option schemes:

Directors	Shares	Options over Shares
I.D.T. Vallance	17,036	612,659
P.G. Bosonnet	3,800	—
M. Bett	15,394	137,931
M.L. Hefner	13,500	416,014
M. Argent	13,164	158,463
A.J. Booth	40,187	183,953
B.D. Romeril	13,273	151,304
Dr. A.W. Rudge	12,278	239,952
Sir Eric Ash	1,680	—
Sir Ewen Fergusson	80	—
Sir Geoffrey Mulcahy	3,830	—
Y.M. Newbold	500	—
Sir David Scholey	5,000	—
Rt. Hon. Lord Tebbit	3,250	—

For the year ended 31st March, 1993, the Directors serving during the year received from BT aggregate remuneration (including payments to pension schemes) of £3,202,000.

All of the executive Directors have entered into service agreements with BT. All of the executive Directors' current service agreements expire in August 1995 but contain provisions for extension which enable BT (with the agreement of the Director concerned) to replace the unexpired period of the service agreement with a new three-year period

of service. The Company will offer to extend existing service agreements to 5th August, 1996, except in the case of Mr. Argent whose agreement will expire on 31st August, 1995. 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. Mr. Romeril's service agreement will expire when he leaves the Company on 30th June, 1993.

All of the non-executive Directors except Mr. Bett have three-year contracts of appointment, expiring at various dates. Mr. Bett's contract of appointment expires on 31st January, 1995.

There are no other service agreements, existing or proposed, between any of the Directors and BT. Except for the right of HM Government to appoint two Directors, there are no arrangements or understandings between any Director or executive officer and any other person pursuant to which such Director or executive officer was selected to serve.

There are no family relationships between any of the Directors of BT.

Mr. Vallance is a non-executive director of The Royal Bank of Scotland Group plc, a subsidiary of which is acting as a receiving bank in respect of the UK Public Offer; Sir Ewen Fergusson is a director of Coutts & Co, a subsidiary of National Westminster Bank Plc, a receiving bank in respect of the UK Public Offer, subsidiaries of which are also acting as a Global Manager for the International Offer and a Share Shop; Sir David Scholey is chairman of S.G. Warburg Group plc and Mr. Bosonnet is a non-executive director of Mercury Asset Management Group plc, a subsidiary 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 and to act as Global Co-ordinator, and as a Global Manager for the International Offer. Such companies will receive fees and/or commissions in respect of their acting in such capacities.

8. Market information and Dividends

Market information

Listing

The principal listing of the Shares is on the London Stock Exchange, on which over 2.2 billion Shares were traded in the 1993 financial year. In addition, 1.8 billion of the 1991 interim rights were traded on the London Stock Exchange in the 1993 financial year before dealings ceased prior to the payment of the final instalment on 2nd March, 1993.

Interim Rights will be traded on the London Stock Exchange separately from the Shares currently outstanding.

It is proposed that settlement of trades in Interim Rights on the London Stock Exchange will be effected in TALISMAN (the London Stock Exchange's centralised computer settlement system). See "Dealings" in Part 12, for further information on the dealing periods and settlement dates.

Market prices

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

Market prices	Pence per Share	
	High	Low
	P	P
1st April — 30th June, 1990	304	245
1st July — 30th September, 1990	310	256
1st October — 31st December, 1990	293	254
1st January — 31st March, 1991	347	268
1st April — 30th June, 1991	383	347
1st July — 30th September, 1991	399	351
1st October — 31st December, 1991	421	322
1st January — 31st March, 1992	338	313
1st April — 30th June, 1992	366	306
1st July — 30th September, 1992	360	329
1st October — 31st December, 1992	417	341
1st January — 31st March, 1993	442	376
1st April — 25th June, 1993	441	396

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

On 25th June, 1993, the closing middle-market quotation for Shares on the London Stock Exchange was 424.5p.

On 25th June, 1993, 6,203.5 million Shares were in issue.

Market statistics

The statistics set out below are based on the closing middle-market quotation for the Shares on 25th June, 1993 of 424.5p, as derived from the London Stock Exchange Daily Official List. Potential investors should note that the statistics will fluctuate with changes in the market price of the Shares.

Stockmarket capitalisation of BT	£26,334 million
Historic price/earnings multiple based on BT's earnings per Share for the 1993 financial year of 19.8p	21.4 times
Pro forma dividend yield based on BT's total dividend per Share in respect of the 1993 financial year of 15.6p net (a)	4.6 per cent.

Note:

(a) Assuming a gross dividend which includes a notional associated tax credit of 3.9p, being 25 per cent. of the 15.6p net dividend. See "Dividends" below for further information.

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 first dividend to which holders of Shares sold under the Combined Offers will be entitled is the final dividend of 9.45p net in respect of the 1993 financial year which will, subject to shareholder approval at the forthcoming annual general meeting, be payable on 30th September, 1993 (or as soon as possible thereafter) to holders of Shares and Interim Rights on the register on 1st September, 1993. Holders of Interim Rights will be entitled to all subsequent dividends on the same basis as holders of Shares.

The following table sets out the net dividends paid or recommended to be paid on Shares in respect of each of the

past five financial years, excluding the associated tax credit in respect of such dividends.

Net dividends per Share					
	1989	1990	Year ended 31st March		
	p	p	1991	1992	1993
			p	p	p
Interim	4.25	4.65	5.25	5.70	6.15
Final	6.25	7.15	8.05	8.70	9.45
Total	10.50	11.80	13.30	14.40	15.60

See "UK taxation" in Part 11 for a description of the associated tax credit available to persons resident in the UK for tax purposes, the way such tax credit is calculated and the rates of such tax credit.

In March 1993, HM Government announced changes in the taxation of dividends which will reduce the associated tax credit available to certain beneficial owners of Shares with respect to dividends payable after 5th April, 1993. The

associated tax credit was equal to 33½ per cent. of the net amount of any dividend paid by BT prior to 6th April, 1993, and will be reduced to 25 per cent. of the net amount of any dividend to be paid by BT after 5th April, 1993. As a result of these changes, the total of the net dividend and associated tax credit available to certain beneficial owners of Shares with respect to the 1993 financial year increased by 4.2 per cent., despite the 8.3 per cent. increase in the total net dividend declared by the Company with respect to the 1993 financial year. The final dividend, including the associated tax credit available to such owners for the 1993 financial year, increased by 1.8 per cent., despite the 8.6 per cent. increase in the final net dividend declared by the Company.

Future dividends will be dependent upon the Group's earnings, the financial condition of BT and other factors. Interim and final dividends paid in the past are not necessarily indicative of future interim and final dividends, or the future relationship between them.

9. Relationship with HM Government

HM Government's interest in BT

As at 25th June, 1993, HM Government held 21.8 per cent. of the issued Shares of the Company. Assuming HM Treasury sells all of the Shares being offered by it under the Combined Offers (together with the Shares which would be sold on exercise in full of the Over-allotment Option described in "Over-allotment and stabilisation" in Part 2), it would expect to hold not more than 1.5 per cent. of the Company's issued share capital immediately after the Combined Offers. This holding would comprise principally Shares retained to meet share bonus entitlements under the arrangements made in HM Treasury's sale of Shares in December 1991 and a number of Shares reserved from the Combined Offers to satisfy Share Bonus entitlements under the UK Public Offer.

HM Government has stated that its policy is to sell residual shareholdings in privatised companies as the circumstances of the companies and market conditions permit. HM Government has stated that, before making any such disposal, it will take into account the views of BT's Board of Directors.

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

HM Government will continue to hold the special rights redeemable preference share of £1 par value in the Company (the "Special Share"), which is redeemable at par at the holder's option. HM Government has stated that it 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 has stated that it does not intend to appoint or nominate further Government Appointed Directors when the present such nomination expires on 18th October, 1993. HM Government has stated that, as holder of the Special Share, it would have no objection to changes to the Company's Articles to remove its power to appoint or nominate such Directors. The Company intends to propose such alterations to its shareholders at a future general meeting.

HM Government owns £1,344 million of BT bonds, which were modified in 1992 from the unsecured loan stock previously in issue, repayable at par at various dates between 31st March, 1994 and 31st March, 2005. HM Government, as part of its policy to raise approximately £1 billion in the 1993 financial year from its portfolio of privatised companies' bonds and loan stock, sold BT bonds with a face value of £729 million maturing in the years 2000, 2002, 2003 and 2006 to BT and to third parties in December 1992.

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 revenues. 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

requires 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.

See Part 4, "Regulation, Competition and Prices" for further information in respect of the powers of HM Government and the Director General to regulate telecommunications within the UK.

Attitude of opposition parties to BT

Following the general election on 9th April, 1992, the Conservative Party retained a parliamentary majority, which

it has held since 1979. As at 25th June, 1993, the Government's majority over all other parties was 18 seats. The next general election must be held no later than May 1997.

The Labour Party had a manifesto for the 1992 election which favoured more regulation of BT in order to enhance customer protection. In November 1992, the Labour Party issued a policy document, which stated that a Labour government would be prepared to finance a National Recovery Programme in part from a "one-off public dividend paid by the excess profits of the utilities" which, in their view, would include BT. The Labour Party has since begun a long-term re-assessment of its industrial policies.

The Liberal Democrat Party which, as at 25th June, 1993, held 21 seats in the House of Commons out of a total of 651, continues to call for the "break-up" of BT.

The policies of opposition parties are the responsibility of the party concerned.

10. Description of BT share capital and Summary of Instalment Agreement

Share capital and share schemes

The authorised and issued share capital of the Company at 25th June, 1993 was as follows:

BT share capital		
	Authorised £	Issued and fully paid £
Special Share Shares	2,625,000,000	1,550,884,109
	2,625,000,001	1,550,884,110

Pursuant to a resolution passed at the annual general meeting of the Company in 1992, the Directors of BT are generally authorised for the purposes of section 80 of the Companies Act 1985 (as amended, the "Companies Act") to allot Shares or securities convertible into Shares, or to grant options to subscribe for Shares, having an aggregate nominal value of £332,810,000. This authority expires on the date of the annual general meeting of the Company to be held in 1997 or, if earlier, 29th July, 1997. A further authority will be sought at the Company's forthcoming annual general meeting.

The provisions of section 89(1) of the Companies Act, 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 special resolution passed at the annual general meeting of the Company in 1992, 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 equity securities so allotted under a rights issue), do not in aggregate exceed a nominal value of £76,998,000. The disapplication expires on the date of the forthcoming annual general meeting of the Company, when a resolution for a similar disapplication of this section for a further year will be sought.

The Company has a share ownership scheme used for employee share allocations, a share option scheme for its employees and those of participating subsidiaries and further share option schemes for selected Group employees.

The major share option scheme, the BT Employee Share-save Scheme, is savings-related and the share options are normally exercisable on completion of a five-year, Save-As-You-Earn contract. Under the other share option schemes, the share options are normally exercisable between the third and tenth anniversaries of the date of grant. At 25th June, 1993, there were options outstanding under the share option schemes to subscribe approximately 289 million Shares, exercisable prior to 2003 at prices between 187p and 430p per Share.

Since 31st March, 1990, BT has allotted approximately 153 million Shares pursuant to exercises of options granted under BT's share option schemes.

Shares

Rights attaching to Shares

The following is a description of the rights of fully paid Shares based on the Company's Memorandum and Articles of Association (the "Articles") and English law. This description does not purport to be complete and is qualified in its entirety by reference to the full Articles.

General: All of the issued Shares are fully paid, and, accordingly, no further contribution of capital may be required by the Company from holders of Shares. Under English law, shareholders who are not residents of the UK may hold, vote and transfer their Shares in the same manner as UK residents.

Dividends: Subject to the rights of the holder of any 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 and repayment of the amounts paid up on the Special Share and subject to any special rights attaching to any other class of shares, 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. A shareholder whose registered address is outside the UK and who wishes to receive notices of meetings of shareholders must give the Company an address within the UK to which they may be sent.

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 (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 14 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.

Annual report: A holder of Shares who, having received a copy of the full annual report and accounts, does not otherwise elect by notice in writing to the Company will thereafter receive annual summary financial statements published by the Company instead of its full report and accounts.

Pre-emption rights: see "Share capital and share schemes" above.

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 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. See Part 9, "Relationship with HM Government". These Directors are permitted by BT's Articles 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 (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 required to give notices in relation to interests in voting shares as currently provided in Part VI of the Companies Act.

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), the Board shall serve a written notice on all persons (other than certain persons referred to below) who appear to it to have such interests 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 giving of the notice to 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., or in relation to a transfer by or on behalf of a custodian bank acting as the registered holder of shares to which any interim rights relate.

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, including the Custodian Bank

for the Interim Rights, the Depositary for the American Depositary Receipts ("ADRs") and Interim American Depositary Receipts ("Interim ADRs") and The Depositary Trust Company, are not subject to these restrictions.

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 Offer or the UK Public Offer, as the case may be, the second instalment being payable on or before 1st March, 1994 and the final instalment being payable on or before 11th October, 1994. To enable Purchasers (as defined below) to transfer their rights to Shares without prejudicing the interests of HM Treasury, the Instalment Agreement dated 29th June, 1993 (the "Instalment Agreement"), to which every Purchaser will also be a party, has been entered into between HM Treasury, the Company and Lloyds Bank Plc (the "Custodian Bank"). 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. In the case of applications by Share Shops on Bulk application forms (as described in Part 11), the Share Shop's nominee or, if the Share Shop has applied on a Bulk application form requesting the issue of individual interim certificates in the names of its underlying applicants or their nominees, such underlying applicants or their nominees, will be entitled to be shown on the Interim Rights Register and so become Purchasers, once the Share Shop has paid, in cleared funds, the first instalment in respect of the Shares applied for and submitted satisfactory details of the underlying applicants to which the Bulk application form relates. Copies of the Instalment Agreement are available for inspection until 22nd November, 1994 at Lloyds Bank Plc, Lloyds Bank Registrars, The Causeway, Worthing, West Sussex BN99 6DA. Full copies (on payment of a reasonable fee) or a summary (without payment) of the Instalment Agreement may also be obtained from the address above 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 will be registered in the name of the Custodian Bank or its nominee on the register of members of the Company until all of the instalments in respect of that Share have been duly paid, after which each such Share shall be transferred to the Purchaser and a definitive share certificate 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 Custodian Bank and the Company may arrange for his rights to payment of dividends and to receive notices, voting papers, reports and other circulars to be combined so that he only receives a single item (representing his combined rights). A Purchaser will 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 Company will continue to send summary financial statements to a Purchaser after he becomes a shareholder, 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 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 Custodian Bank will issue interim certificates to Purchasers to evidence their Interim Rights to these Shares.

Purchasers on the Interim Rights Register at 3.00 p.m. on 1st March, 1994 and 11th October, 1994 will be required 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 will be required 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 Share, 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 the second and final instalments) or an amount equal to the aggregate of such first instalment and the second instalment, less any instalment discount, if applicable, (if the default is 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 £3.00. 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 on or before 11th October, 1994, HM Treasury and the Purchasers will be deemed to have agreed to sell and purchase Shares 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 required 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 Custodian Bank or its 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 registered holders of Shares.

Other distributions in respect 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 Custodian Bank or its nominee as the registered holder of Shares will normally be retained by the Custodian Bank and transferred by it to the relevant Purchasers after payment of the final instalment subject to the Purchasers paying any stamp duty or SDRT in connection with such transfer and to such arrangements as may be agreed by HM Treasury, the Company and the Custodian Bank. Purchasers at the time when such a distribution is made to the Custodian Bank 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 Custodian 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. on 21st January, 1994, and the final instalment, if submitted after 3.00 p.m. on 8th September, 1994, 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 any outstanding instalment(s)) 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 purchased in the Combined Offers to a similar extent and subject to similar restrictions as if they were registered holders of those Shares, except that Purchasers will not be entitled to attend or vote at the annual general meeting of the Company convened for 29th July, 1993. Meetings of Purchasers may be convened by the Company, HM Treasury or the Custodian Bank, and, if the Custodian Bank 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 will bind all Purchasers. A Purchaser whose registered address is outside the UK and who wishes to receive notices of meetings must give the Custodian 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 Custodian Bank 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 and disclosure of the Interim Rights Register

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 and other fraudulent applications.

Amendment to the Instalment Agreement

The Company, the Custodian Bank 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 the Custodian Bank 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 financial 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 or the Custodian Bank, the Purchaser must pay the same to HM Treasury or the Custodian Bank (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.

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 address 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.

11. Additional information

Terms used in this Part and not defined herein have the same meanings as set out in Part 12.

Share Shops

156 organisations successfully applied to act as Share Shops in relation to the UK Public Offer. Share Shops acting as such are required to comply with the Terms and Conditions of the Share Shop scheme.

Share Shops fall within one or more of the following categories:

- (a) members of The Securities and Futures Authority Limited, Investment Management Regulatory Organisation Limited or the Financial Intermediaries, Managers and Brokers Regulatory Association, provided that the scope of their membership enables them to act as Share Shops; or
- (b) member firms of the London Stock Exchange who are situated in the Channel Islands or the Isle of Man; or
- (c) PEP managers acting in their capacity as such, provided that the scope of their regulatory authorisation enables them to act as Share Shops; or
- (d) such other persons as HM Treasury has designated.

At all times and in all respects a Share Shop will act for itself or for its customers or registrants and not as agent for HM Treasury, S.G. Warburg & Co. Ltd., BT, any subsidiary of BT or any of their respective officers, employees or agents.

In applying to act as a Share Shop and agreeing to act in accordance with the Terms and Conditions of the Share Shop scheme, each Share Shop has made and given various representations, warranties and undertakings to and for the benefit of HM Treasury, S.G. Warburg & Co. Ltd. and BT as to, among other things, its capacity and authority, compliance with laws and applicable regulations, multiple applications and disclosure of information. It has also agreed to indemnify HM Treasury, S.G. Warburg & Co. Ltd. and BT and each of

their respective officers, employees and agents against all liabilities which they may suffer by reason of the Share Shop's acts or omissions in connection with its acting as a Share Shop or otherwise in connection with the UK Public Offer.

Registration with Share Shops

Each Share Shop is required to maintain a register of all individuals which it agrees to register for the purpose of the UK Public Offer from 24th May, 1993 until 2nd July, 1993 inclusive. Each Share Shop is able to register automatically any or all of its existing individual customers (within the meaning of the rules of its self-regulating organisation or other regulatory body, if any) resident in the UK, the Channel Islands or the Isle of Man, other than those for whom it carries on solely execution-only business.

Each Share Shop is required to notify individuals it has registered of that fact or, in the case of its discretionary customers which it has registered, that it may apply on their behalf in the UK Public Offer.

Applications to Share Shops

As soon as reasonably practicable following receipt by each Share Shop of copies of this prospectus, each Share Shop is required to send to all of its registrants (other than its discretionary customers) a Share Shop application form and a copy of this prospectus (except that a copy of this prospectus need not be sent if it is being sent to another member of the registrant's family who is resident at the same address). The Share Shop application form must, when executed, authorise the Share Shop to make a valid application on a Bulk application form in the UK Public Offer on behalf of the registrant completing the Share Shop application form, and must include certain other statements and

terms as prescribed by HM Treasury. Payment for Shares in respect of such Share Shop application form must be made to, or as directed by, the Share Shop.

Applications by Share Shops

Bulk application forms will be used by a Share Shop to apply for Shares in the UK Public Offer on a single form on behalf of a number of underlying applicants who are registered with the Share Shop and who (except in the case of its discretionary customers) have duly completed its Share Shop application form.

Each Share Shop must duly submit an application, on a Bulk application form, on behalf of any registrant who has duly completed and submitted to it its Share Shop application form. The Share Shop must, on all Bulk application forms submitted by it, properly distinguish between underlying applicants who are qualifying shareholders, eligible employees, both of these or neither. Such applications made for qualifying shareholders and/or eligible employees will include a warranty that such underlying applicants were qualifying shareholders and/or eligible employees to the best of the Share Shop's knowledge and belief. Applications on Bulk application forms are made on the basis of the Terms and Conditions of application set out in Part 13 and the Special Terms of Application. The Special Terms of Application provide that, among other things, as regards allocation and incentives, an application duly made on a Bulk application form will be treated as if it constituted a separate application for each of the relevant underlying applicants.

Each Share Shop must deliver satisfactory lists of underlying applicants, including details of their names, addresses, Registration Numbers or Nominee Numbers, if any, and client account numbers, if any, to HM Treasury before interim certificates are despatched to it.

UK Public Offer selling commission

Each Share Shop will be eligible to receive selling commission from HM Treasury in respect of allocations resulting from successful applications on duly submitted Bulk application forms.

Rates

Selling commission in respect of each Bulk application form will be calculated in relation to each underlying applicant separately and, subject to HM Treasury's rights to withhold selling commission as described below, will be payable at the following rates:

- (a) on the first £8,000 worth of Shares allocated at the fully paid UK Public Offer Price, at the rate of 1.1 per cent. of such value; and
- (b) on the next £22,000 worth of Shares allocated at the fully paid UK Public Offer Price, at the rate of 0.5 per cent. of such value, with a minimum payment of £12.50 per successful underlying applicant.

Subject to certain exceptions, no selling commission will be payable in respect of any Bulk application form submitted in respect of fewer than 15 underlying applicants. Selling commission on Bulk application forms will be rounded down to the nearest £1.

Share Shops may reallow selling commission to Financial Intermediaries, but may not do so to any underlying applicant.

Withholding commission

HM Treasury may withhold any selling commission from a Share Shop which would otherwise be payable if HM Treasury considers in its absolute discretion that:

- (a) the Share Shop has encouraged any person, in its advertising material or otherwise, to acquire Shares in the UK Public Offer not for investment but with a view to selling such Shares on or shortly after the date dealings commence in the Interim Rights, or has facilitated such a sale otherwise than by providing normal share dealing services (such as by encouraging underlying applicants to give selling instructions prior to the date dealings commence in the Interim Rights or by introducing or promoting a special dealing rate specifically for sales, but not purchases, of such Shares). This will not be applied where the Share Shop encourages or facilitates a sale to comply with any applicable laws or regulations to which it is subject; or
- (b) the Share Shop fails to satisfy the fraud auditor appointed by HM Treasury in relation to the UK Public Offer that it is entitled to receive selling commission, or that adequate procedures have been adopted and followed, or adequate records kept, in each case designed to prevent multiple or other fraudulent applications in the UK Public Offer; or
- (c) the Share Shop has committed a breach of any of the Terms and Conditions of the Share Shop scheme.

Summary of offer agreements

The description 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 10th June, 1993 between HM Treasury (1), the Global Managers and certain of their affiliates (2), the North American Managers and their respective Canadian Distributors and US Distributors (3), the Japanese Managers (4), the Rest of the World Managers (5) and the Global Co-ordinator (6) which provides for the regulation of the orderly marketing of the Shares under the Combined Offers, and, in particular, provides for any sale of Shares (which is widely defined to include, inter alia, any solicitation of interest in purchasing and any transfer or other disposal of Shares) to be made only in those countries or territories in which the International Offer is made and in accordance with all applicable regulatory requirements.

(b) An agreement (the "International Offer Agreement") dated 29th June, 1993 between HM Treasury (1), the Global Managers and certain of their affiliates (2), the North American Managers and their respective Canadian Distributors and US Distributors (3), the Japanese Managers (4), the Rest of the World Managers (5), the Global Co-ordinator (6) and S.G. Warburg & Co. Ltd. (7) which provides for the conduct of the International Offer. Pursuant to this agreement:

- (i) each Manager (which expression shall, where used in this paragraph, include certain affiliates of each Global Manager and the respective Canadian Distributors and US Distributors of the North American Managers) 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 Offer;
- (ii) the commitment of any Manager to procure

purchasers for, or failing which to purchase, any Shares will be evidenced solely by delivery on behalf of that Manager of the purchase memorandum contemplated by the agreement (the "Purchase Memorandum") which is expected to take place on 19th July, 1993;

(iii) delivery of the Purchase Memorandum will constitute the agreement by a Manager with HM Treasury and the Global Co-ordinator to procure purchasers for, or failing which to purchase, at the International Offer Price, (1) in the case of the Global Managers, (a) in equal shares, the number of Shares allocated to all Specified Investors and not accepted by Specified Investors and (b) the number of Shares allocated to persons other than Specified Investors in the Purchase Memorandum in respect of successful bids made on their behalf by that Global Manager and its affiliates; and (2) in the case of any Manager other than a Global Manager, the number of Shares which that Manager agrees in the Purchase Memorandum to procure purchasers for, or failing which to purchase, in each case on the terms and conditions referred to in the agreement and on the terms of the Purchase Memorandum. Such delivery will also constitute the agreement by each Manager to offer the Shares allocated to it in the Purchase Memorandum to the persons on whose behalf it made successful bids in the International Offer. 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 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 Offer Agreement), it will not disclose any such details prior to such date;

(v) HM Treasury has agreed to pay to the Global Managers and the Regional Managers management commission equal to 0.2 per cent. of the value at the International Offer Price of the Shares sold by HM Treasury in the International Offer (together in each case with any VAT thereon). Of this management commission, 80 per cent. will be shared equally between the Global Managers and the balance will be shared equally between the Regional Managers. HM Treasury has further agreed (for itself in respect of the Shares sold by it under the International 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 VAT thereon) to the Managers equal to 0.8 per cent. of the value at the International Offer Price of the Shares allocated to the Managers in the Purchase Memorandum. Subject to part of such selling commission being available as described in the International Offer Agreement to meet the costs of stabilisation, and the legal (if any) and other expenses of the Global Co-ordinator in connection with or arising out of the preparation or negotiation of the International Offer Agreement, the

Purchase Memorandum and the Orderly Marketing Agreement, and the International Offer, such selling commission will be paid to the Managers (1) insofar as it relates to sales of Shares to Specified Investors, as designated by the relevant Specified Investor and, to the extent that no designation is made, according to allocations to Global Managers and their affiliates; and (2) insofar as it relates to any other sale of Shares, according to allocations to Managers. Except as described above, all out-of-pocket costs, charges and expenses of and incidental to making the International Offer (together with any VAT thereon) duly authorised by HM Treasury shall, as between HM Treasury and the Managers, be borne by HM Treasury;

(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 the Company and have indemnified HM Treasury against certain liabilities; and

(vii) the Global Co-ordinator has been granted the Over-allotment Option described in "Over-allotment and stabilisation" in Part 2, which is exercisable by notice to HM Treasury, given not later than the Stabilisation Period End Date. 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 will 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 will 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 shall be payable, at the rates referred to in paragraph (v) above, to the Global Co-ordinator in respect of such Shares, to be divided between the Managers (1) in the case of management commission, as HM Treasury, in its absolute discretion, shall direct and (2) in the case of selling commission, in proportion to other selling commission payable to the Managers.

(c) An agreement (the "Agreement for Warranties and Indemnities") dated 29th June, 1993 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 prospectus 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 29th June, 1993 between HM Treasury (1), the Global Co-ordinator (2) and S.G. Warburg & Co. Ltd. (3) under which HM Treasury has appointed S.G. Warburg Securities Ltd. to act as Global Co-ordinator of the Combined Offers and to conduct, and act as book-runner for, the International Offer.

The agreement contains certain indemnities given by HM Treasury to the Global Co-ordinator.

(e) An agreement (the "Agency Agreement") dated 29th June, 1993 between HM Treasury (1) and S.G. Warburg & Co. Ltd. (2) under which HM Treasury has appointed S.G. Warburg & Co. Ltd. as its agent on its behalf to make the UK Public Offer. The agreement contains certain indemnities given by HM Treasury to S.G. Warburg & Co. Ltd.

UK taxation

The following summary of certain UK tax consequences is set out in reliance upon the advice of Linklaters & Paines, London. The summary does not purport to be a complete analysis of all the potential UK tax consequences of owning the Shares. In particular, it does not apply to certain classes of investors, such as dealers. Prospective investors are advised to consult their tax advisers with respect to the tax consequences in both the UK and in any other country in which they are subject to tax in respect of the Shares. The summary is based on current legislation and Inland Revenue practice and on the proposals contained in the 1993 Finance (No. 2) Bill which has not yet been enacted but is expected to become law later this year.

For individual holders of Shares who are resident in the UK for tax purposes, the sum of a cash dividend received and an associated tax credit (the "gross dividend") will be included in the individual's total income for UK tax purposes and will be subject to income tax at the rate of 20 per cent. or, in the case of a higher rate taxpayer, 40 per cent. The associated tax credit will be equivalent to 20 per cent. of the gross dividend and will be set against the individual's overall income tax liability. Accordingly, UK resident individual holders of Shares who are higher rate taxpayers will have an additional income tax liability equal to 20 per cent. of the gross dividend. Other UK resident individual taxpayers will have no further tax liability in respect of a dividend and, if the associated tax credit exceeds an individual's 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 from the Company and the associated tax credit will normally be franked investment income.

Shareholders which are charities may be able to benefit from proposed transitional rules which will enable them to obtain additional payments from the Inland Revenue in respect of the associated tax credit on dividends paid to them before 6th April, 1997.

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 shareholder who is not resident in the UK to claim any part of the associated 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 jurisdictions) on dividends received, whether they are entitled to claim any part of the associated tax credit in respect of a dividend 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.

HM Government has invited comments on a proposed

scheme under which a dividend paid by a UK resident company could be designated by the company paying the dividend as a "foreign income dividend", with the result that it would not carry any associated tax credit. Should such a scheme be implemented in the form proposed, a UK resident holder of Shares receiving a "foreign income dividend" would be treated as receiving income that had borne income tax at the rate of 20 per cent. Accordingly the tax position of UK resident individual holders of Shares receiving a "foreign income dividend" would be the same as if they had received a normal dividend, except that a taxpayer whose overall liability to income tax was less than the income tax which was treated as having been borne by the "foreign income dividend" would not be entitled to claim any payment of the excess from the Inland Revenue. For a UK resident corporate shareholder, a "foreign income dividend" would not be treated as franked investment income but would not be treated as part of the UK resident corporate shareholder's taxable profits. A non-UK resident shareholder receiving a "foreign income dividend" would not be entitled to receive any associated tax credit in respect of the dividend, notwithstanding the terms of any double tax treaty between the UK and the jurisdiction in which that shareholder was resident.

Shares are assets situated in the UK for the purposes of 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 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 close companies and trustees which own assets which are situated in the UK and gifts where the donor reserves some benefit.

A disposal of Shares by a holder who is resident in the UK for tax purposes and who is not a dealer may, after taking account of indexation allowance, give rise to a chargeable gain (or allowable loss) for the purposes of taxation of capital gains.

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) BT considers that, save for the agreement referred to in paragraph (c) of "Summary of offer agreements" above and the letter of intent referred to in "Documents available for inspection" below, 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 prospectus, which are or may be material.

(c) 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.

(d) As at 25th June, 1993, the Company had been notified under Part VI of the Companies Act that the Prudential Corporation group of companies had an interest in 3.7 per cent. of the Company's issued share capital. As at that date, the Company had not been notified of any other person, other than HM Treasury, being interested directly or indirectly in three per cent. or more of the issued share capital

of the Company or of any persons who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

(e) 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 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 are not increased beyond a specified percentage. In 1992, HM Treasury fixed this percentage at 22.2 per cent. The effect of this is to prevent HM Government increasing its voting shareholding in the Company above this revised level without legislation first being passed.

(f) S.G. Warburg Securities Ltd. and S.G. Warburg & Co. Ltd. are financial advisers to HM Treasury in connection with the Combined Offers. S.G. Warburg Securities Ltd. and S.G. Warburg & Co. Ltd. or any of their connected or affiliated companies (or their directors or 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.

(g) Eight firms which are registered as market makers in the Shares and the American Depositary Shares representing Shares ("ADSs") on the London Stock Exchange, four firms which are registered as market makers in the Shares only and two firms which are registered as market makers in options in respect of Shares on LIFFE, are connected with certain of the Managers, Retail Brokers or Share Shops. Pursuant to an exemption from the prohibitions of Rule 10b-6 under the US Securities Exchange Act of 1934, as amended (the "1934 Act") granted by the US Securities and Exchange Commission (the "SEC"), these market makers will be permitted to continue their market making activities in Shares, ADSs or options in respect of Shares on the London Stock Exchange or LIFFE during the period from 15th July, 1993 until the completion of the US distribution (expected to occur by the time dealings in the Interim Rights commence), subject to compliance with certain restrictions, including not trading for the purpose of creating actual or apparent active trading or of raising the price of the Shares, the ADSs or options in respect of Shares and maintaining records required by the London Stock Exchange or LIFFE regarding such activities.

(h) No prospectus in relation to the Shares or the Interim Rights has been or will be lodged with, or registered by, the Australian Securities Commission. Further, no approved deed is in force for the purposes of the Corporations Law of Australia. Therefore, a person may not (directly or indirectly) in connection with the UK Public Offer: (1) offer for subscription or purchase or issue invitations to subscribe for or buy or sell the Shares or Interim Rights; or (2) distribute any draft or definitive document in relation to any such offer, invitation or sale, in Australia, its territories or possessions.

(i) 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 "Overseas applicants" in Part 12.

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.

(j) This prospectus has not been submitted for approval by the Commission des Opérations de Bourse in France and this prospectus 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.

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

(l) Neither this prospectus nor any copy of it may be taken or transmitted into, or distributed in, the US. Any person (including any natural person, company, government or political sub-division thereof) which becomes the "beneficial owner" (as defined in the 1934 Act) of more than five per cent. of the Shares becomes subject, under the terms of the 1934 Act, to an obligation to file prescribed reports of beneficial ownership (and reports of changes in such ownership) with the SEC, the New York Stock Exchange and the Company on a form prescribed by the SEC.

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

(n) 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.

(o) The Company considers that, save as disclosed herein, there has been no significant change in the financial or trading position of the Company since 31st March, 1993.

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 Monday to Friday (inclusive) from 29th June, 1993 until 16th July, 1993:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the Licence;
- (c) the audited financial statements of BT for the 1991, 1992 and 1993 financial years;
- (d) the letter of intent described in "Recent developments - Strategic alliance between BT and MCI" in Part 5;
- (e) MCI's Form 10-K;
- (f) the Directors' service agreements and contracts of appointment referred to in Part 7;

- (g) the agreements referred to in paragraphs (a), (b) and (c) of "Summary of offer agreements" in this Part 11;
- (h) the Instalment Agreement, the Deposit Agreement and the Interim Deposit Agreement relating to ADSs;
- (i) the booklet "Information on Share Shops and on the

- Retail Tender" dated 23rd March, 1993;
- (j) the Terms and Conditions of the Share Shop scheme as amended; and
- (k) the Special Terms of Application contained in the guides to completing the Bulk application forms.

12. Incentives, Applications and preference, Personal Equity Plans, The UK Retail Tender and Dealings

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 Share Information Office or with a Share Shop by midnight on 2nd July, 1993 (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.

Individuals in the UK and certain overseas jurisdictions who held Shares in their own names on the Company register at the close of business on 26th March, 1993 or who were participants in the BT Employee Share Ownership Scheme at that time, were automatically registered with the Share Information Office as qualifying BT shareholders. Similarly, employees, in the UK and certain overseas jurisdictions, of BT and certain of its subsidiaries as at that time were automatically registered with the Share Information Office as eligible BT employees. Certain individual customers of Share Shops have also been automatically registered with their Share Shop.

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.

The closing date and time for registrations is midnight on 2nd July, 1993. At the close of business on 25th June, 1993, there were approximately 4.7 million registrations of individuals of which approximately 1.4 million were with Share Shops and approximately 1.3 million were new registrations with the Share Information Office. Approximately 2.4 million qualifying shareholders and eligible employees were automatically registered with the Share Information Office, and some 100,000 existing customers of the Share Shops have

been automatically registered with their Share Shop, as described above. The total figure of approximately 4.7 million registrations has been adjusted to take account of the approximately 400,000 qualifying shareholders and eligible employees registered with a Share Shop. No other adjustment has been made to reflect any double counting arising from individuals being registered more than once.

Share Bonus

If you duly apply for this incentive, you will be entitled to receive one additional Share for every 15 Shares you buy in the UK Public Offer and hold continuously until 31st July, 1996, subject to a maximum of 100 bonus Shares. Fractions of Shares will be rounded to the nearest whole Share.

Any such additional Shares will be transferred to you as soon as reasonably practicable after 31st July, 1996 (together with all rights attaching to those Shares at that date). Any stamp duty or SDRT 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 July, 1996.

Instalment Discount

If you duly apply for this incentive, you will be entitled to receive a discount of 10p 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) a Permitted Nominee, in which case that Permitted Nominee may be required to claim the relevant incentive for the benefit of the beneficial owner (as described under "Claims by Permitted Nominees" below); or
- (ii) the beneficial owner immediately prior to the transfer (for example, where Shares were held by a Permitted Nominee for a beneficiary or by a parent 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 will 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.

If, after you have paid the final instalment, you are entitled to the Share Bonus and also to bonus Shares arising from the sale of Shares by HM Treasury in December 1991 ("BT2 bonus Shares"), then if you transfer Shares your entitlement to the Share Bonus will be reduced or eliminated before your entitlement to BT2 bonus Shares.

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 or other fraudulent application; or
- (b) made in breach of the eligibility conditions.

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 Permitted Nominees

A Permitted Nominee holding Shares for more than one beneficiary under a single entry on the share register must claim incentives for the benefit of each of such beneficiaries as may be entitled to them at any qualifying date. In order to claim, the Permitted Nominee will be required to supply the names, addresses and client account numbers, if any, of the individuals for whose benefit it 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 Permitted Nominee about three weeks after the date of transfer of bonus Shares to individuals.

Because the call notices sent to such Permitted Nominees for the second and final instalments will not take account of the Instalment Discount (if applicable), the Permitted Nominee must, in order to claim the Instalment Discount for the benefit of its beneficiaries, 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 Permitted Nominee on the normal date for despatch of such certificate. 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 Permitted Nominee regarding entitlement to the Instalment Discount was not knowingly or recklessly breached) HM Treasury will allow the Permitted Nominee 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" above). A disposal of a beneficial interest will not result in loss of entitlement if the Permitted Nominee provides evidence satisfactory to HM Treasury (whose decision will be final and binding) that such a loss of entitlement would not have resulted had it been a disposal of Shares.

Applications and preference

Introduction

Only one application may be made for your benefit in the UK Public Offer. You should read this 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 UK Retail Tender as part of the International Offer as described in "The UK Retail Tender" below.

The application form you may use will depend on a number of factors including: whether or not you are registered with the Share Information Office or with a Share Shop; whether you are a qualifying shareholder; and whether you are an eligible employee. Different levels of preference in allocation will attach to applications on the various forms if there is a heavy demand for Shares. Therefore failure to use the appropriate form could lead to loss of preference. 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 any person entitled to any level of preference. This is so whether or not allocations are made to other persons. There are, however, special arrangements for eligible employees as set out below.

Applications submitted to HM Treasury cannot be revoked pending their acceptance. Except for applications

on Public application forms, applications can only be made by or for the benefit of individuals.

Application forms

Public application forms

If you are not registered with the Share Information Office or with a Share Shop by midnight on 2nd July, 1993 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 prospectus). Public application forms cannot be used to apply for incentives or to obtain preference in allocation.

Share Information Office application forms

If you are registered with the Share Information Office by midnight on 2nd July, 1993, 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 receive greater preference in allocation, on a basis to be determined, than if you had applied on a Public application form, if there is a heavy demand for Shares. If you are a qualifying shareholder and/or an eligible employee you will instead receive a Shareholder, Employee or Employee Shareholder application form, as appropriate, which if duly completed will also enable you to apply for an incentive and will entitle you to shareholder preference and/or employee priority and preference, as the case may be, as described below.

Share Shop application forms

If you are registered with a Share Shop by midnight on 2nd July, 1993, the Share Shop is required to send you (unless you are a discretionary customer of the Share Shop) a Share Shop application form, with instructions for its completion and return, which will, when duly executed, authorise the Share Shop to make an application on your behalf on a Bulk application form. A Bulk application form is a special form which will be used by a Share Shop to apply for Shares in the UK Public Offer on behalf of individuals who apply to it and any discretionary customers for whom it applies. Each Share Shop must duly submit an application, on a Bulk application form, on behalf of any registrant who has duly completed its Share Shop application form and submitted it to the Share Shop by the time specified by the Share Shop (which will be earlier than the close of the UK Public Offer).

If an application is duly made on your behalf by your Share Shop, the Share Shop will be able to apply on your behalf for an incentive on Shares you receive and you will receive greater preference in allocation, on a basis to be determined, than if you had applied on a Share Information Office application form, if there is a heavy demand for Shares. If you are a qualifying shareholder and/or an eligible employee, and you communicate that fact and your Registration Number or Nominee Number to the Share Shop, you will also be entitled to shareholder preference and/or employee priority and preference, as the case may be, as described below. In submitting a Bulk application form, a Share Shop, on behalf of each of its underlying applicants, gives the warranties set out in paragraph 14 of the Terms and Conditions of application set out in Part 13, including paragraph 14(ii) relating to multiple applications and, if applicable, the holding of qualifying shareholder and/or eligible employee status.

Shareholder preference

Qualifying shareholders, who duly apply on an application form according to their qualifying shareholder status, will receive a greater allocation of Shares, on a basis to be determined, than they would otherwise have received, if there is a heavy demand for Shares.

The number of additional Shares utilised to provide qualifying shareholders with such a greater allocation will be such that in aggregate qualifying shareholders (excluding those who are also eligible employees) together receive approximately but not more than 50 per cent. more Shares than they would have received had they applied for the same number of Shares as registrants with the Share Information Office or a Share Shop, as applicable, but not as qualifying shareholders. Such number of additional Shares shall not, however, exceed 25 per cent. of the Shares available in the UK Public Offer.

In certain limited circumstances, a person allocated Shares pursuant to shareholder preference and who held no Shares (or interests in Shares) at the close of business on 26th March, 1993, 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.

For these purposes an eligible employee who is also a qualifying shareholder receiving Shares up to but not exceeding the employee Priority Level (referred to below) will not be treated as receiving Shares pursuant to shareholder preference.

Employee priority and preference

Eligible employees, who duly apply on an application form according to their eligible employee status, will be allocated in full the number of Shares applied for up to a certain level (the "Priority Level") which will be 2,000 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 for the purposes of the allocation policy as having made a separate application for the balance which will be treated as if made by a person entitled to preference in allocation according to whether he/she applied through a Share Shop and/or as a qualifying shareholder. If the total allocation of Shares to eligible employees at or below a Priority Level of 2,000 Shares would exceed the lower of 10 per cent. of the Shares sold by HM Treasury in the Combined Offers (together with the Shares which are the subject of the Global Co-ordinator's option to purchase Shares to satisfy over-allotments referred to in Part 2) and 40 per cent. of the Shares sold in the UK Public Offer, the Priority Level will be reduced until allocations at or below the Priority Level no longer exceed this amount.

Applications on behalf of other persons

Attorneys and agents

If you wish to apply through an attorney or agent on a Share Shop application form you should consult the Share Shop with which you are registered.

If you wish to apply on a Share Information Office application form or a Public application form, 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 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 to completing the relevant application form. Any attorney or agent signing such an application form on your behalf will be required to warrant, in accordance with paragraph 15(i) of the Terms and Conditions of application set out in Part 13, 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 15(i) of the Terms and Conditions of application also contains a warranty to this effect.

Nominees

A nominee may apply on behalf of other persons, in his own name followed by "A/C" and the initials or other identity details of the person on whose behalf he is applying, on a Public application form.

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. In the case of applications on Share Information Office application forms and Public application forms, instructions as to how such applications should be made are set out in the guides to completing the relevant application forms.

Corporations

A corporation may only apply on its own behalf on a Public application form. Applications made by corporations must be signed by a duly authorised official, whose representative capacity must be stated on the form.

Partnerships and other unincorporated bodies

A partnership, firm, trust, association, club or other unincorporated body may only apply on its own behalf on a Public application form.

No multiple applications

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

Any application, including any application made on behalf of a discretionary customer, 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 or other fraudulent 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 set out in Part 13, 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.

In particular, criminal proceedings may be instituted against anyone knowingly making or authorising an application which falsely claims qualifying shareholder and/or eligible employee status.

Payment

The right is reserved by HM Treasury 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 or other fraudulent applications. All cheques must be honoured on first presentation.

If you apply on a Share Shop application form then you should present payment to that Share Shop in the manner indicated to you by such Share Shop.

Your attention is drawn to the arrangements for payment by instalments. Under the Instalment Agreement (which is summarised in "Summary of Instalment Agreement" in Part 10), you will be liable for the second instalment when it falls due on 1st March, 1994 and for the final instalment when it falls due on 11th October, 1994 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. Payment for each of the second and final instalments must be for value on (i.e. your cheque must clear on or before) the relevant date.

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. Failure by the registrar to record any change of address will not remove your obligation to pay.

Allocations

The basis of allocation of the Shares will be announced prior to the commencement of dealings in Interim Rights. Each Share Shop must apply such basis of allocation to each of its underlying applicants. If you have applied on a Share Information Office application form or on a Public application form and if your application is successful in whole or in part, you will be sent an interim certificate for the Shares allocated to you. If an application was duly made on your behalf by a Share Shop on a Bulk application form and that application was successful in whole or in part, the Share Shop will, subject to it submitting satisfactory lists of underlying applicants, be sent either a consolidated interim certificate in the name of its nominee, representing the holdings of several underlying applicants, including the Shares allocated to you or, if the Share Shop so requested, an individual interim certificate in your or your nominee's name which it will be responsible for sending to you. The Share Shop is not permitted to charge you for providing you with an individual interim certificate where you are entitled to receive one pursuant to your application on a Share Shop application form. 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. If you have applied through a Share Shop, such return application monies will be sent to the Share Shop which will be responsible for sending them to you unless you have made alternative arrangements with the Share Shop.

The right is reserved by HM Treasury to reject, in whole or in part, any application.

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 prospectus 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 any individual, corporation, partnership or other entity in, or resident in, Canada (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 the investment assets of which are managed on a discretionary basis by a person otherwise entitled to make an application under the UK Public Offer).

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 US.

Applicants in certain overseas jurisdictions are not permitted to apply through a Share Shop.

UK stamp duty and SDRT

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

HM Treasury has agreed to pay all stamp duty and SDRT in respect of the agreement to acquire Shares and of the transfer of Shares by the Custodian Bank or its nominee to the persons entitled to those Shares following payment of the final instalment.

Different rules apply in connection with depositary receipt arrangements and clearance services. 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 SDRT in respect of or resulting from acceptance of their applications or the transfer of Shares to them (except that HM Treasury will pay the SDRT due in respect of the first instalment on Shares taken in the form of ADSs by investors in the International Offer and except on a transfer of Shares pursuant to the Instalment Agreement following payment of the final instalment).

Subsequent sales of Shares will attract stamp duty (or, if an unconditional agreement to transfer Shares is not completed by a duly stamped transfer within two months of the agreement, SDRT) normally at the rate of 50p per £100 (or part thereof) of the consideration paid. Transfers of Shares where there is no change of beneficial ownership (which will include transfers of Shares from a Share Shop or its nominee to an underlying applicant) will attract a fixed rate duty of 50p per transfer.

Personal Equity Plans

A qualifying individual (being an individual aged 18 or over who is resident and ordinarily resident in the UK) may subscribe up to £6,000 to a general PEP, and up to £3,000 to a single company PEP, during the income tax year 1993/94 (which ends on 5th April, 1994). The Shares qualify as investments which may be held in a general PEP and/or in a single company PEP.

A PEP manager may acquire Shares on behalf of a qualifying individual under the Combined Offers. Alternatively, subject to the normal limits on, and conditions for, transfers into a PEP, Shares acquired by a qualifying individual under the Combined Offers (but not otherwise) are eligible for transfer (if applicable, without loss of incentives) by that individual to a PEP manager prepared to accept them within 42 days of their allocation. Individuals will have to demonstrate to the PEP manager that the Shares they wish to transfer into a PEP have been acquired pursuant to an application or bid by them or by a duly instructed or authorised agent on their behalf in the Combined Offers. Shares allocated pursuant to any successful application made by discretionary fund managers without express authority will not be eligible for transfer into a PEP.

In either case, the amount of the first instalment will be taken into account for the purposes of the PEP subscription limit for the income tax year 1993/94, as will any amount duly paid in respect of the second instalment assuming that the Shares continue to be held within the PEP at that time. The amounts paid in the income tax year 1994/95 in respect of the final instalment on Shares held within a PEP will be taken into account for the purposes of the PEP subscription limit for that income tax year. If the full amount of the second or final instalments cannot be met out of the maximum permitted cash subscriptions (and any other cash held within the PEP) in the relevant year, some or all 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.

The information above about PEPs is based on the law and regulations currently in force and is subject to any changes thereto.

For special arrangements in respect of PEPs in the Retail Tender, see "The UK Retail Tender" below.

The UK Retail Tender

As part of the International Offer, S.G. Warburg Securities Ltd. has invited Retail Brokers to submit bids on behalf of their clients who are Qualifying Clients (the "UK Retail Tender"). A bid by a Retail Broker on behalf of a Qualifying

Client in the International Offer may be made in addition to an application made for the benefit of that person in the UK Public Offer. Bids in the UK Retail Tender must be for a minimum of 2,000 Shares, in multiples of 100 Shares, save as described below. Incentives are not available in relation to Shares purchased in the International Offer.

Bids for 1,000 or more but not more than 2,000 Shares in the UK Retail Tender, which are submitted either (a) by or on behalf of a PEP manager bidding on behalf of an investor in an existing PEP; or (b) on behalf of a Qualifying Client who has opened or applied to open a PEP, and who has irrevocably instructed that any Shares allocated to that Qualifying Client in respect of that bid are to be transferred to that PEP forthwith on allocation ("PEP bids"), will receive more favourable treatment in allocation than other bids in the UK Retail Tender. Investors may apply to open a PEP conditional on receiving an allocation in the UK Retail Tender. The PEP manager is required to waive any initial charges on subscriptions into a PEP in the form of Shares or cash to acquire Shares in the UK Retail Tender.

S.G. Warburg Securities Ltd. will reallow to Retail Brokers, out of commission payable to S.G. Warburg Securities Ltd. by HM Treasury in respect of Shares allocated to Qualifying Clients of such Retail Brokers, selling commission equal to 0.5 per cent. of the value at the International Offer Price of such Shares.

Dealings

Timetable

It is expected that dealings in the Interim Rights will commence on the London Stock Exchange at 7.30 a.m. on 19th July, 1993 and that, subject to Share Shops duly supplying satisfactory details of underlying applicants, interim certificates will be sent to Share Shops in respect of their successful underlying applicants on 23rd July, 1993 and to other applicants allocated Shares under the UK Public Offer on or before 28th July, 1993. If circumstances require a revised delivery 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 on the London Stock Exchange will be effected in TALISMAN (the London Stock Exchange's centralised computer settlement system) and that dealings during the two dealing periods set out below will be for settlement on the deferred settlement dates indicated. From 2nd August, 1993, dealings will be for normal account settlement (the usual settlement basis for dealings on the London Stock Exchange).

Dealing period	Settlement date
19th - 23rd July, 1993	11th August, 1993
26th - 30th July, 1993	18th August, 1993
From 2nd August, 1993	Normal account settlement

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

7.30 a.m. on 19th July, 1993	Dealings commence.
On or before 28th July, 1993	First instalment paid interim certificates despatched (despatch by Share Shops may be later).
14th January, 1994	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.
21st January, 1994	Record date for preparation of combined first instalment paid interim certificates and call notices to pay the second instalment.
1st February, 1994	Combined first instalment paid interim certificates and call notices to pay the second instalment posted.
11th February, 1994	Last day for dealings first instalment paid. Bargains made after this date will be settled by delivery of second instalment paid interim certificates.
1st March, 1994	Payment of the second instalment to be made for value by 3.00 p.m. on this date.
9th March, 1994	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 11th October, 1994). 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 SEPON 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 Parts 11 and 12

References to **Share Shops** are to persons who have been permitted by HM Treasury to act as Share Shops in connection with the UK Public Offer which permission has not been revoked.

References to the **Terms and Conditions of the Share Shop scheme** are to the document referred to in paragraph (j) of "Documents available for inspection" in Part 11.

Multiple applications are as defined under "No multiple applications" in this Part 12.

References to **discretionary customers** are to customers of a Share Shop for whom it acts as a discretionary manager of assets or investments.

References to **underlying applicants** are to individuals on whose behalf a Share Shop duly applies on a Bulk application form.

References to **qualifying BT shareholders or qualifying shareholders** are to individuals in the UK and certain overseas jurisdictions who: (a) held Shares on the Company's register of members at the close of business on 26th March, 1993 either in their own name or as the beneficiary of a nominee holding or (b) who were participants in the BT Employee Share Ownership Scheme at that time.

References to **eligible BT employees or eligible employees** are to employees, in the UK and certain overseas jurisdictions, of the Company, BT Repair Services Ltd, BT Consumer Electronics Ltd, BT (CBP) Ltd, BT (Marine) Ltd or Manx Telecom Ltd at the close of business on 26th March, 1993.

References to the **Special Terms of Application** are to the document referred to in paragraph (k) of "Documents available for inspection" in Part 11.

References to a **Registration Number** are to the unique identification number allocated to a qualifying shareholder or an eligible employee by the Share Information Office.

References to a **Nominee Number** are to the unique identification number allocated to a nominee holding Shares on behalf of one or more qualifying shareholders.

References to **Financial Intermediaries** are to persons authorised to carry on investment business in the UK for the purposes of section 3 of the Financial Services Act 1986 and their appointed representatives.

References to **duly apply** include, where relevant to any particular application form, your satisfying the eligibility requirements set out in the guide to completing that form and, in relation to Bulk application forms, the Share Shop complying with its obligations under the Special Terms of Application applicable thereto and under the Terms and Conditions of the Share Shop scheme.

References to **incentives, Instalment Discount and Share Bonus** have the meanings set out under "Incentives" in this Part 12.

References to the **Share Information Office or SIO** are to the BT3 Share Information Office established by S.G. Warburg & Co. Ltd. for the purpose of disseminating publicity material and information primarily in relation to the UK Public Offer and receiving registrations from individuals in the UK and certain overseas jurisdictions with a view to them receiving a Share Information Office application form.

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

References to **registrations** exclude registrations which were made but subsequently deleted.

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

References to a **registrar** are to the Custodian 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 **Permitted Nominees** are to persons who apply for or hold 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 or the Isle of Man or (c) PEP managers or (d) a nominee company controlled by or affiliated to any person falling within (a) to (c) above or (e) such other persons as HM Treasury may designate as Permitted Nominees from time to time.

References to **UK Clearing Banks** are to members of the CHAPS and Town Clearing Company Limited and certain other designated banks.

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

References to **PEPs** are to personal equity plans within the meaning of the Regulations from time to time made under section 333 of the Income and Corporation Taxes Act 1988 and section 151 of the Taxation of Chargeable Gains Act 1992.

References to a **Retail Broker** are to a member firm of the London Stock Exchange or another Financial Intermediary invited by S.G. Warburg Securities Ltd., as a Global Manager for the International Offer, to submit bids on behalf of their Qualifying Clients in the UK Retail Tender.

References to a **Qualifying Client** are to a client of a Retail Broker who or which is: (a) an individual who is resident in the UK, the Channel Islands or the Isle of Man or (b) a trust the beneficiaries of which are individuals each of which would be a Qualifying Client or (c) a PEP manager bidding in respect of a PEP investor (in accordance with the applicable rules relating to PEPs), and include a parent, grandparent or guardian who is resident in any of the above territories bidding on behalf of a person under the age of majority who is a Qualifying Client.

References to the **Custodian Bank** have the meaning set out under "Summary of Instalment Agreement" in Part 10.

13. Terms and Conditions

Introduction

If you apply for 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. If you so apply through a Share Shop by completing a Share Shop application form, you will have authorised the Share Shop to apply for Shares in the UK Public Offer on your behalf on the terms and conditions set out below, as amended by the Special Terms of Application set out in the guides to completing the Bulk application forms.

Offer to purchase Shares

1. 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.
2. You agree that your offer cannot be revoked prior to 18th August, 1993 and promise that the cheque or banker's draft accompanying your application will be honoured on first presentation. HM Treasury agrees that it will not, prior to 18th August, 1993, 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.
3. If your application form is not completed correctly or is amended, or if the accompanying cheque or banker's 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.
4. Any application may be rejected in whole or in part.

Acceptance of your offer

5. HM Treasury may accept your offer to purchase (if your application is received, valid, processed and not rejected) either:
 - (i) by notifying the London Stock Exchange of the basis of allocation (in which case the acceptance will be on that basis); or
 - (ii) 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.
6. 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 18th

August, 1993, whether before or after acceptance of your offer, the International Offer Price is determined by HM Treasury and accepted by the Managers by execution and delivery of the Purchase Memorandum contemplated by the International Offer Agreement.

Payment for the Shares

7. 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 banker's 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 1st March, 1994 and the final instalment by 11th October, 1994 (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 20th September, 1994.
8. 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 18th August, 1993, 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.
9. 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 10 below and no other amounts remain due to HM Treasury, the remaining balance will be returned to you (without interest).
10. If your cheque or banker's 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 9 above).

11. 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

12. 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 (other than the right to attend and vote at the annual general meeting of the Company convened for 29th July, 1993) 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 7 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.

Incentives

13. 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 12.

Warranties

14. You warrant and agree that:
 - (i) you are not under the age of majority (18 years of age in the UK) on the date of your application;
 - (ii) to your knowledge and belief only one application is being made in the UK Public Offer for your benefit (or that of any person for whose benefit you are applying) and, if you are applying as a qualifying BT shareholder and/or an eligible BT employee, you hold the relevant status;

- (iii) you are not in the US and you are not, nor are you applying on behalf of, a Canadian person (as defined in Part 12) or an individual, corporation or entity resident in Japan;
 - (iv) 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 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;
 - (v) 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. Neither HM Treasury nor the Company nor S.G. Warburg & Co. Ltd. nor Lloyds Bank Plc nor any of their respective officers or directors will have any liability for any such other information or representation. You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance, without prejudice to any other rights you may have; and
 - (vi) 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 first sentence of 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, or any actions arising from your rights and obligations under these terms and conditions, the Instalment Agreement and the Memorandum and Articles of Association of the Company.
15. (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 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

16. 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, to regulatory bodies 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 or other fraudulent applications.

No multiple applications

17. 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

18. 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.
19. 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.
20. 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 first sentence of the Introduction to these terms and conditions 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.

21. Reference in these terms and conditions to the Prospectus is to the prospectus dated 29th June, 1993 issued by S.G. Warburg & Co. Ltd. relating to the UK Public Offer. In these terms and conditions references to a "Part" are to a Part of the Prospectus. Words defined in the Prospectus 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.
22. 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.
23. HM Treasury reserves the right, after consultation with S.G. Warburg & Co. Ltd. and the receiving banks, and by giving notice to the London Stock Exchange, to delay the closing time of the UK Public Offer from 10.00 a.m. on 14th July, 1993. In that event the revised closing time will be publicised in such manner as HM Treasury in its absolute discretion determines.

Guide to completing the Public application form

(references to Boxes are to the numbered boxes on the 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 (under 20 in Jersey), 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. 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 initial letters of the organisation's name 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. **THE MINIMUM NUMBER OF SHARES YOU CAN APPLY FOR IS 120.**

Number of Shares for which you can apply	Amount you pay now at 150p per Share	Number of Shares for which you can apply	Amount you pay now at 150p per Share
120	£180	800	£1,200
200	£300	900	£1,350
300	£450	1,000	£1,500
400	£600	1,500	£2,250
500	£750	2,000	£3,000
600	£900	2,500	£3,750
700	£1,050	3,000	£4,500

Above 3,000 Shares, applications must be in the following denominations:

Applications for 3,000 to 5,000 Shares	in multiples of 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 150p per Share is payable now. The second instalment of 140p per Share is payable by 1st March, 1994 and the final instalment is payable by 11th October, 1994. The amount of the final instalment will be set shortly after the end of the Offer as explained in Part 2 of the Prospectus and will appear on the interim certificate. A reminder in respect of each instalment will be sent in plenty of time. The instalment will be due from those holding Shares at the relevant time, irrespective of whether or not the reminder is received.

4 Sign and date the application 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 12 of the Prospectus and to paragraph 17 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 an official of a UK Clearing Bank 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 "A/C Payee". The cheque should not be post-dated.

Any monies returned will be sent by cheque crossed "A/C Payee" payable to the person named in Box 1.

6 You may apply to hold the Shares 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 above and the declaration in Box 4.

Data protection

HM Treasury is a registered data user under the Data Protection Act 1984 and your attention is drawn to paragraph 16 of the Terms and Conditions of application set out in the Prospectus.

Public application form

Before completing this form, please read carefully the accompanying guide.
Multiple applications are prohibited.

B T 3

Share Offer

1 Please use BLOCK CAPITALS

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

WARNING:
No incentives or
preference on
this form.

2 I offer to purchase

BT Shares

**The minimum number
of Shares that you
can apply for is 120.**

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 29th June, 1993. I declare that to my knowledge and 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

1993

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 "A/C Payee". Attach one cheque only.

6 Joint applicants

The first applicant should complete 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 relevant boxes below.

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

Title	Forename(s) in full	Surname	Signature
☐			
☐			
☐			

Photocopies of application forms will not be accepted.

Instructions for return of the Public application form



By post

Send this form, when completed, to arrive not later than 10.00 am on Wednesday 14th July, 1993 at:

The BT3 Share Offer (Share Information Office),
Bristol BS99 1XU.

Allow plenty of time for delivery.

By hand

Take this form by hand before 3.30 pm on Tuesday 13th July, 1993 to any
UK branch of NatWest, Lloyds, Royal Bank of Scotland or Ulster Bank,

or take this form by hand before 10.00 am on Wednesday 14th July, 1993
to any of the receiving centres listed below (open only for deliveries by hand).

Aberdeen
The Royal Bank of Scotland plc,
12 Golden Square,
Aberdeen

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

Birmingham
Lloyds Bank Plc,
125 Colmore Row,
Birmingham

Brighton
Lloyds Bank Plc,
171/173 North Street,
Brighton

Bristol
National Westminster Bank Plc,
32 Corn Street,
Bristol

Cambridge
Lloyds Bank Plc,
3 Sidney Street,
Cambridge

Cardiff
National Westminster Bank Plc,
117 St. Mary Street,
Cardiff

Edinburgh
The Royal Bank of Scotland plc,
36 St. Andrew Square,
Edinburgh

Exeter
Lloyds Bank Plc,
234 High Street,
Exeter

Glasgow
The Royal Bank of Scotland plc,
98 Buchanan 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

Kingston upon Hull
National Westminster Bank Plc,
19 Silver Street,
Kingston upon Hull

Leeds
National Westminster Bank Plc,
8 Park Row,
Leeds

Leicester
National Westminster Bank Plc,
1 Granby Street,
Leicester

Lincoln
National Westminster Bank Plc,
225 High Street,
Lincoln

Liverpool
Lloyds Bank Plc,
India Buildings,
Water Street,
Liverpool

London
National Westminster Bank Plc,
Drapers Gardens,
12 Throgmorton Avenue,
London EC2

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
The Royal Bank of Scotland plc,
31 Grey Street,
Newcastle upon Tyne

Norwich
Lloyds Bank Plc,
16 Gentleman's Walk,
Norwich

Southampton
Lloyds Bank Plc,
19/21 High Street,
Southampton

Stoke-on-Trent
Lloyds Bank Plc,
Fountain Square,
Hanley
Stoke-on-Trent

