



BT Shareholder

Circular to shareholders

Our plans to create two new holding companies

September 2001

Shareholders are advised to read the enclosed documents carefully. If you have any queries please contact our

***Shareholder Helpline on
Freephone 0808 100 4141***

(or + 44 20 7864 9074 if you are calling from outside the UK).

This helpline is available from:

8.30 a.m. to 8.30 p.m. Monday to Friday and

10.00 a.m. to 4.30 p.m. Saturdays, Sundays and UK public holidays.

For legal reasons, the Shareholder Helpline will be unable to give advice on the merits of the proposals or to provide financial advice.

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

When considering what action you should take, you should seek your own personal financial advice immediately from your stockbroker, bank, solicitor, accountant, fund manager or other appropriate financial adviser authorised under the Financial Services Act 1986.

This document does not constitute an offer or invitation to any person to subscribe for, or purchase, any securities in BT Group plc or in mmO₂ plc or in any other entity.

If you have sold or otherwise transferred all of your BT Shares, please send this document and the other enclosed documents at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee.

This document should be read in conjunction with the accompanying mmO₂ Summary Particulars which have been prepared in accordance with the Listing Rules made under section 142 of the Financial Services Act 1986. Copies of the mmO₂ Listing Particulars and the BT Group Listing Particulars have been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 149 of that Act and they are available at the addresses set out in paragraph 25 of Part 3. US Holders of BT Shares and holders of BT ADSs will not be sent the mmO₂ Summary Particulars. They will be sent the mmO₂ Form 20-F. US Holders of BT Shares and holders of BT ADSs when referred by this document to the mmO₂ Summary Particulars should instead refer to the mmO₂ Form 20-F.

British Telecommunications public limited company

Recommended proposals for the demerger of mmO₂, the creation of two new holding companies and other matters

Meetings of BT Shareholders to consider the Proposals contained in this document will be held on 23 October 2001. The Court Meeting will start at 10.30 a.m. on that date and the Extraordinary General Meeting at 10.45 a.m. (or as soon thereafter as the Court Meeting has been concluded or adjourned). Your Board is unanimously recommending you to vote in favour of the Proposals. You should complete, sign and return your Forms of Proxy for each of the Court Meeting and the Extraordinary General Meeting to Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA as soon as possible but in any event so as to arrive no later than 10.30 a.m. and 10.45 a.m. respectively on 21 October 2001. You may return your Forms of Proxy either by post in the reply-paid envelope provided or by fax to **Freefone 0808 100 4142** (or +44 20 7392 4128 from outside the UK). Alternatively, you may appoint a proxy using the internet by logging on to the website **www.sharevote.co.uk** or by telephone by calling **Freefone 0808 100 4141** (or +44 20 7864 9074 from outside the UK). If you have registered for a Shareview portfolio, you may also appoint a proxy by logging on to the website www.shareview.co.uk and clicking on "Company Meetings". Full details of the procedure are given on the websites. Further details on the action you should take are set out in Part 2 of this document.

Holders of BT ADSs are referred to Part 8 of this document for information on voting procedures relating to them.

The BT Group Shares, the BT Group ADSs, the mmO₂ Shares and the mmO₂ ADSs to be issued under the Proposals have not been, and are not required to be, registered with the SEC under the US Securities Act or any US state securities laws. The SEC has not approved or disapproved the BT Group Shares, the BT Group ADSs, the mmO₂ Shares or the mmO₂ ADSs or passed upon the adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

Cazenove & Co. Ltd, which is regulated in the United Kingdom by the Securities and Futures Authority, is acting exclusively for British Telecommunications public limited company ("BT") and BT Group plc and no-one else in connection with the Proposals and will not be responsible to anyone other than BT or BT Group plc for providing the protections afforded to its customers or for providing advice in relation to the Proposals or the contents of this document.

Merrill Lynch International, Morgan Stanley & Co. International Limited and Schroder Salomon Smith Barney, each of which is regulated in the United Kingdom by the Securities and Futures Authority, are acting exclusively for BT and mmO₂ plc and for no-one else in connection with the Scheme and the demerger of mmO₂ and will not be responsible to anyone other than BT and mmO₂ plc for providing the protections afforded to their customers or for providing advice in relation to the Scheme or the demerger of mmO₂ or the contents of this document.

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Cautionary statement regarding forward-looking statements

This document contains certain statements that are forward-looking with respect to (i) the benefits and advantages of the Group's restructuring and, in particular, the demerger of mmO₂ and the creation of two new holding companies; (ii) BT Group's strategy and its ability to achieve it; (iii) mmO₂ plc's strategy and its ability to achieve it; (iv) growth opportunities available in the communications industry and BT Group's positioning to take advantage of such opportunities; (v) the strategies of each of BT Group's businesses; (vi) the expansion plans of each of BT Group's businesses and plans to launch new products and services; (vii) BT Group's capital expenditure plans; (viii) BT Group's cost savings targets; (ix) BT Retail's turnover and EBITDA targets; (x) BT Wholesale's capital expenditure, free cash flow and external turnover targets; (xi) BT Ignite's EBITDA, capital expenditure and turnover targets; (xii) BT Group plc's and mmO₂ plc's expectations regarding dividend payments; (xiii) the Group's plans regarding Concert; (xiv) the Group's debt reduction plans; (xv) the completion of the Group's property transaction; and (xvi) those statements preceded by, followed by, or that include the words "believes", "expects", "anticipates" or similar expressions. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. There are a number of factors that could cause actual events and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to: (i) the Group's ability to realise the benefits expected to be derived from its restructuring and, in particular, the demerger of mmO₂ and the creation of two new holding companies; (ii) material adverse changes in economic conditions in the markets served by BT Group's businesses; (iii) future regulatory actions and conditions in BT Group's businesses' operating areas, including competition from others in the United Kingdom and other international communications markets; (iv) technological innovations, including the cost of developing new products and the need to increase expenditures for improving the quality of service; (v) the anticipated benefits and advantages of new technologies not being realised; (vi) developments in the convergence of technologies; (vii) prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs; (viii) the timing of entry and profitability of BT Group's businesses in certain communication markets; (ix) significant changes in market shares for BT Group's businesses, principal products and services; (x) fluctuations in foreign currency exchange rates and interest rates; (xi) general financial market conditions affecting the Group's ability to succeed with its restructuring; (xii) the Group's ability to deliver its plans for Concert; (xiii) the Group's ability to benefit from the growth of, and capitalise on opportunities available in, the communications industry; (xiv) the Group's ability to reduce its debts; and (xv) BT Group's ability to complete the property transaction.

SHAREHOLDER HELPLINE NUMBER: **Freefone 0808 100 4141** (+44 20 7864 9074 if you are calling from outside the UK) (Monday to Friday, 8.30 a.m. to 8.30 p.m.; Saturdays, Sundays and UK public holidays, 10.00 a.m. to 4.30 p.m.)

Note
For legal reasons, the Shareholder Helpline will only be able to provide information contained in this document (other than information relating to the Company's register of members) and will be unable to give advice on the merits of the Proposals or to provide financial advice.

Expected timetable of principal events

2001

Latest time for receipt of blue form of proxy for the Court Meeting ¹	10.30 a.m. on 21 October
Latest time for receipt of pink form of proxy for the Extraordinary General Meeting	10.45 a.m. on 21 October
Voting Record Time for the Court Meeting ²	6.00 p.m. on 21 October
Voting Record Time for the Extraordinary General Meeting ²	6.00 p.m. on 21 October
Court Meeting	10.30 a.m. on 23 October
Extraordinary General Meeting ³	10.45 a.m. on 23 October
BT interim results for the six months ended 30 September 2001 published ⁴	8 November
Conditional dealing in mmO ₂ Shares on the London Stock Exchange commences	9 November
Court hearing of the petition to sanction the Scheme	14 November
Court hearing of the petition to confirm the reduction of capital of BT provided for under the Scheme ⁵	15 November
Last day of dealings in BT Shares on the London Stock Exchange ⁶	16 November
Scheme Record Time ⁶	5.00 p.m. on 16 November
Scheme Effective Time ⁶	5.30 p.m. on 16 November
Demerger Record Time ⁷	6.00 a.m. on 19 November
Demerger Effective Time ⁷	8.00 a.m. on 19 November
Dealings in BT Group Shares and mmO ₂ Shares commence on the London Stock Exchange ⁷	8.00 a.m. on 19 November
Crediting of BT Group Shares and mmO ₂ Shares to CREST accounts ⁷	19 November
Court hearing of the petition to confirm the BT Group Reduction of Capital ⁸	20 November
BT Group Reduction of Capital becomes effective ⁹	21 November
Despatch of share certificates relating to BT Group Shares and mmO ₂ Shares (other than in respect of Shares held in CREST) ⁷	by 30 November

Notes

- ¹ If the form of proxy for the Court Meeting is not returned by this time, it may be handed in to be given to the Chairman of the Court Meeting at the meeting.
- ² If either the Court Meeting or the EGM is adjourned, the Voting Record Time for the adjourned meeting will be 48 hours before the start of the adjourned meeting.
- ³ To begin at the time fixed or, if later, immediately following the end, or adjournment, of the Court Meeting.
- ⁴ In the event that the publication of the BT interim results for the six months to 30 September 2001 gives rise to a requirement for BT Group plc to publish supplementary listing particulars, these will be available for collection on request from BT Centre, 81 Newgate Street, London EC1A 7AJ. Any change to the publication date of the BT interim results will be notified by an announcement to the Regulatory News Service of the London Stock Exchange.
- ⁵ This date is indicative only and will depend upon the date on which the Court sanctions the Scheme.
- ⁶ These dates are indicative only and will depend, amongst other things, on the dates on which the Court sanctions the Scheme and approves the reduction of capital of BT provided for under the Scheme.
- ⁷ These dates are indicative only and will depend, amongst other things, on the date on which the reduction of capital provided for under the Scheme becomes effective.
- ⁸ This date is indicative only and will depend, amongst other things, on the date on which the Demerger becomes effective.
- ⁹ This date is indicative only and will depend upon the date on which the Demerger becomes effective and the date on which the Court confirms the BT Group Reduction of Capital.

All references to time in this document are to London time unless otherwise stated.

The dates given are based on BT's current expectations and may be subject to change.

Holders of BT ADSs should refer to Part 8 of this document for the expected timetable of principal events for holders of BT ADSs. This includes information regarding the latest time to deliver voting instructions for the Court Meeting and the EGM to the ADS Depository.

Definitions

The following definitions apply throughout this document, other than in the Scheme in Part 9 and except where the context requires otherwise.

“Admission and Disclosure Standards”	the requirements contained in the publication “Admission and Disclosure Standards” dated May 2001 containing, among other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange’s market for listed securities
“Admission”, “introduction” or “listing”	admission of the BT Group Shares or the mmO ₂ Shares, as appropriate, to (i) the Official List and (ii) trading on the London Stock Exchange’s markets for listed securities becoming effective in accordance with, respectively, the Listing Rules and the Admission and Disclosure Standards
“ADR”	an American depositary receipt
“ADS”	an American depositary share
“ADS Depository”	Morgan Guaranty Trust Company of New York in its capacity as (i) the BT ADS Depository under the BT ADS Deposit Agreement, (ii) the BT Group ADS Depository under the BT Group ADS Deposit Agreement or (iii) the mmO ₂ ADS Depository under the mmO ₂ ADS Deposit Agreement as the context requires
“ADSL”	asymmetric digital subscriber line
“AT&T”	AT&T Corp.
“Board” or “Directors”	the directors of BT, whose names are set out on page 9 of this document
“BT” or the “Company”	British Telecommunications public limited company, incorporated and registered in England and Wales under the Companies Acts 1948 to 1981 with registered number 1800000
“BT ADR”	an ADR evidencing BT ADSs
“BT ADS”	an ADS, representing 10 BT Shares, issued by the ADS Depository in accordance with the BT ADS Deposit Agreement
“BT ADS Deposit Agreement”	the deposit agreement dated 16 November 1984 and amended and restated as of 21 November 1991 and as further amended and restated as of 10 May 2001 between BT, the ADS Depository and holders from time to time of BT ADSs issued under it
“BT Affinitis”	BT’s infrastructure services business which, following the Demerger, will form part of the BT Group
“BT Articles”	the articles of association of BT
“BT Cellnet”	BT Cellnet Limited, a company registered in England and Wales with registered number 1743099
“BT Group”	BT and its subsidiary undertakings other than the mmO ₂ Group before the Demerger Effective Time and BT Group plc and its subsidiary undertakings following the Demerger Effective Time
“BT Group ADR”	an ADR evidencing BT Group ADSs
“BT Group ADS”	an ADS, representing 10 BT Group Shares, issued by the ADS Depository in accordance with the provisions of the BT Group ADS Deposit Agreement
“BT Group ADS Deposit Agreement”	the deposit agreement expected to be dated 16 November 2001 between BT Group plc, the ADS Depository and holders from time to time of BT Group ADSs issued under it
“BT Group Articles”	the articles of association of BT Group plc
“BT Group businesses”	the businesses carried on by the Group other than those carried on by members of the mmO ₂ Group
“BT Group Investments”	BT Group Investments Limited, incorporated and registered in England and Wales with registered number 4278695, which it is proposed will become the intermediate holding company of BT as part of the restructuring expected to take place after the Scheme Effective Time and before the Demerger Effective Time
“BT Group Listing Particulars”	the listing particulars relating to BT Group plc dated 18 September 2001, copies of which are available, free of charge, from BT’s registered office and website (www.bt.com)

“BT Group plc”	BT Group plc, incorporated and registered in England and Wales with registered number 4190816 which will be the holding company of the BT Group businesses following the Demerger Effective Time
“BT Group Reduction of Capital”	the proposed reduction of capital of BT Group plc under section 135 of the Companies Act as described in Part 3 of this document
“BT Group Shares”	ordinary shares of 115 pence each (or the lower nominal amount resulting from the BT Group Reduction of Capital) in the capital of BT Group plc
“BT Ignite”	BT’s international, datacentric solutions and broadband IP business which, following the Demerger, will form part of the BT Group
“BT Option Schemes”	the BT Share Schemes, other than the BT Incentive Share Plan, the BT Retention Share Plan, the BT Deferred Bonus Plan, the BT Executive Share Plan, the BT Employee Share Ownership Scheme and the BT Employee Stock Purchase Plan
“BT Retail”	BT’s communications service provider to the residential and business markets in the UK which, following the Demerger, will form part of the BT Group
“BT Share Schemes”	the BT Incentive Share Plan, the BT Retention Share Plan, the BT Deferred Bonus Plan, the BT Executive Share Plan, the BT Employee Share Ownership Scheme, the BT Employee Stock Purchase Plan, the BT Global Share Option Plan, the BT Employee Sharesave Scheme 1994, the BT International Employee Sharesave Scheme, the BT Share Option Scheme, the BT Worldwide Share Option Scheme and the BT US Stock Option Plan
“BT Shareholders”	holders of BT Shares appearing in the register of members of BT at the Scheme Record Time
“BT Shares”	Ordinary Shares: <ul style="list-style-type: none"> (a) in issue at the date of the Scheme; (b) (if any) issued after that date and prior to the Voting Record Time; and (c) (if any) issued at or after the passing of the First Special Resolution and before the confirmation by the Court of the reduction of capital provided for by Clause 2 of the Scheme in respect of which the original or any subsequent holder shall be bound or shall, before such confirmation, have agreed in writing to be bound by the Scheme
“BT Wholesale”	BT’s provider of network services within the UK to communications companies, network operators and service providers which, following the Demerger, will form part of the BT Group
“BTexact Technologies”	BT’s engineering and technology research and development business which, following the Demerger, will form part of the BT Group
“BTopenworld”	BT’s mass-market ISPs and internet related activities, serving consumers and SMEs in the UK, which, following the Demerger, will form part of the BT Group
“business day”	a day (excluding Saturday or Sunday or public holidays in England and Wales) on which banks generally are open for business in the City of London for the transaction of normal banking business
“Cazenove”	Cazenove & Co. Ltd
“Cegetel”	Cegetel SA, BT’s interest in which, following the Demerger, will form part of the BT Group
“certificated” or “in certificated form”	where a share or other security is not in uncertificated form
“Companies Act”	the Companies Act 1985, as amended
“Concert”	the global communications joint venture owned equally by BT and AT&T, BT’s interest in which, following the Demerger, will form part of the BT Group
“Court”	the High Court of Justice in England and Wales
“Court Meeting”	the meeting of holders of Ordinary Shares convened by order of the Court under section 425 of the Companies Act, notice of which is set out at the end of this document, to consider the Scheme, and any adjournment of that meeting
“CREST”	the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by CRESTCo in accordance with the Regulations

Definitions

“CRESTCo”	CRESTCo Limited, the operator of CREST
“Demerger”	the proposed demerger of the mmO ₂ business from the Group, details of which are set out in this document
“Demerger Dividend”	has the meaning set out in paragraph 3(e) in Part 3 of this document
“Demerger Effective Date”	the date on which the Demerger becomes effective, expected to be Monday 19 November 2001
“Demerger Effective Time”	the time at which the Demerger becomes effective, expected to be 8.00 a.m. on Monday 19 November 2001
“Demerger Record Time”	6.00 a.m. on the Demerger Effective Date
“Demerger Resolution”	the ordinary resolution proposing the Demerger to be put to the EGM
“DSL”	digital subscriber line
“DTC”	the Depository Trust Company
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“EU”	the European Union
“Extraordinary General Meeting” or “EGM”	the extraordinary general meeting of BT, notice of which is set out at the end of this document, and any adjournment of that meeting
“financial year”	the year ended 31 March (e.g. the 2001 financial year refers to the year ended 31 March 2001)
“First Special Resolution”	the special resolution (which is set out first in the notice convening the EGM set out at the end of this document) to approve the matters necessary to implement the Scheme, further details of which are set out in Part 3 of this document
“Forms of Proxy”	the blue form of proxy for the Court Meeting and the pink form of proxy for the EGM
“Genie”	BT’s mobile internet portal business which, following the Demerger, will form part of the mmO ₂ Group
“GPRS”	general packet radio service, a mobile data technology with advantages over existing circuit switched data services
“Great Britain”	England, Scotland and Wales
“Group”	before the Demerger Effective Time, BT and its subsidiary undertakings and mmO ₂ plc and its subsidiary undertakings and, after the Demerger Effective Time, BT Group plc and its subsidiary undertakings
“GSM”	the global systems for mobile communications. Originally defined as a pan-European standard for digital cellular telephone networks to support roaming, it is now one of the world’s main digital mobile standards. GSM can be implemented in 900 MHz, 1800 MHz or 1900 MHz frequency bands
“IP”	internet protocol
“ISAs”	individual savings accounts
“ISP”	internet service provider
“Listing Rules”	the rules and regulations made by the UK Listing Authority under Part IV of the Financial Services Act 1986 as amended from time to time
“London Stock Exchange”	London Stock Exchange plc
“mmO ₂ ” or “mmO ₂ business”	BT’s controlled wireless assets in Europe, together with Genie and Manx Telecom
“mmO ₂ ADR”	an ADR evidencing mmO ₂ ADSs
“mmO ₂ ADS”	an ADS, representing 10 mmO ₂ Shares, issued by the ADS Depository in accordance with the provisions of the mmO ₂ ADS Deposit Agreement
“mmO ₂ ADS Deposit Agreement”	the deposit agreement expected to be dated 16 November 2001 between mmO ₂ plc, the ADS Depository and holders from time to time of mmO ₂ ADSs issued under it
“mmO ₂ All-Employee Share Plans”	the mmO ₂ Share Ownership Plan, the mmO ₂ Profit Sharing Share Plan, the mmO ₂ Sharesave Plan, the mmO ₂ International Share Ownership Plan and the mmO ₂ International Sharesave Plan, a summary of the principal features of each of which is set out in paragraph 5 of Part 10 of the mmO ₂ Summary Particulars

“mmO ₂ Executive Share Portfolio”	the mmO ₂ Executive Share Portfolio comprising share option, restricted share and performance share elements, a summary of the principal features of which is set out in paragraph 5 of Part 10 of the mmO ₂ Summary Particulars
“mmO ₂ Form 20-F”	the Securities Exchange Act Registration Statement on Form 20-F dated 18 September 2001 relating to mmO ₂ plc
“mmO ₂ Group”	O ₂ Limited and its subsidiary undertakings before the Demerger Effective Time and mmO ₂ plc and its subsidiary undertakings following the Demerger Effective Time
“mmO ₂ Listing Particulars”	the listing particulars relating to mmO ₂ plc dated 18 September 2001, copies of which are available, free of charge, from BT’s registered office and website (www.bt.com) or, by calling the Shareholder Helpline on Freephone 0808 100 4141 (or +44 20 7864 9074 from outside the UK)
“mmO ₂ plc”	mmO ₂ plc, incorporated and registered in England and Wales with registered number 4190833, which will be the holding company for the mmO ₂ business following the Demerger Effective Time
“mmO ₂ plc Articles”	the articles of association of mmO ₂ plc
“mmO ₂ Shareholders”	holders of mmO ₂ Shares
“mmO ₂ Share Plans”	the mmO ₂ All-Employee Share Plans and the mmO ₂ Executive Share Portfolio
“mmO ₂ Shares”	ordinary shares of 0.1 pence each in the capital of mmO ₂ plc
“mmO ₂ Summary Particulars”	the summary listing particulars relating to mmO ₂ plc dated 18 September 2001, which accompany this document
“O ₂ Limited”	O ₂ Limited, incorporated and registered in England and Wales with registered number 2604354, formerly BT Wireless Limited
“Official List”	the Official List of the UK Listing Authority
“Ofcom”	the Office of Telecommunications
“Optionholders”	holders of options to acquire Ordinary Shares under the BT Option Schemes
“Ordinary Shares”	ordinary shares with a nominal value of 25 pence each in the capital of BT
“Overseas Shareholders”	BT Shareholders with registered addresses in, or who are citizens, residents or nationals of, jurisdictions outside the UK
“PEPs”	personal equity plans
“Proposals”	the recommended proposals for the demerger of mmO ₂ from the Group, the creation of two new holding companies and the BT Group Reduction of Capital, all as described in this document
“Reduction Order”	the Order of the Court confirming under section 137 of the Companies Act the reduction of the share capital of BT provided for by Clause 2 of the Scheme
“Regulations”	the Uncertificated Securities Regulations 1995 (SI 1995 No. 95/3272), as amended
“Rights Issue”	the 3 for 10 rights issue of 1,975,580,052 Ordinary Shares which closed on 15 June 2001
“Scheme”	the scheme of arrangement under section 425 of the Companies Act, set out in Part 9 of this document, in its original form or with or subject to any modification, addition or condition approved or imposed by the Court
“Scheme Effective Time”	the time at which an office copy of the Reduction Order is registered by the Registrar of Companies (which, subject to the conditions applying to the Scheme, including the sanction of the Court, is expected to be at or around 5.30 p.m. on Friday 16 November 2001)
“Scheme Record Time”	if the date on which an office copy of the Reduction Order is registered by the Registrar of Companies is a Friday (expected to be Friday 16 November 2001), 5.00 p.m. on that date, or otherwise 5.00 p.m. on the business day last preceding the date on which an office copy of the Reduction Order is registered by the Registrar of Companies
“SEC”	the US Securities and Exchange Commission
“Securities Act”	the US Securities Act of 1933, as amended
“Securities Exchange Act”	the US Securities Exchange Act of 1934, as amended
“Shareholder Helpline”	the helpline set up to advise BT Shareholders and other participants in the Scheme about how to complete the Forms of Proxy and to answer questions about the Proposals

Definitions

“SMEs”	small and medium-sized enterprises
“Special Purpose Trust”	has the meaning set out in paragraph 14 of Part 3 of this document
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“UK GAAP”	accounting principles generally accepted in the United Kingdom
“UK Listing Authority”	the Financial Services Authority in its capacity as the competent authority for the purposes of Part IV of the Financial Services Act 1986 and in the exercise of its functions in respect of the admission to the Official List otherwise than in accordance with Part IV of the Financial Services Act 1986
“UMTS” or “UMTS Network”	universal mobile telecommunications system network – a third-generation wireless communications network
“uncertificated” or “in uncertificated form”	recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST
“US” or “United States”	the United States of America, its territories and possessions
“US Holders”	BT Shareholders with US registered addresses, unless the context requires otherwise
“Viag Interkom”	Viag Interkom GmbH & Co
“Voting Record Time”	in relation to both the Court Meeting and the EGM, 6.00 p.m. on 21 October 2001 or, if either the Court Meeting or the EGM is adjourned, 48 hours before the time fixed for the adjourned meeting
“Yell”	the international directories and e-commerce business which BT sold for approximately £2 billion on 25 June 2001

Directors, Company Secretary and advisers

Directors of BT

Sir Christopher Bland *Chairman*
Sir Peter Bonfield, CBE *Chief Executive*
Philip Hampton *Group Finance Director*
Sir Anthony Greener *Non-Executive Deputy Chairman*
Helen Alexander *Non-Executive Director*
Dr Iain Anderson *Non-Executive Director*
Maarten van den Bergh *Non-Executive Director*
Louis Hughes *Non-Executive Director*
Neville Isdell *Non-Executive Director*
June de Moller *Non-Executive Director*
Sir John Weston *Non-Executive Director*
all of BT Centre, 81 Newgate Street, London EC1A 7AJ.

Company Secretary of BT

Colin Green
BT Centre
81 Newgate Street
London EC1A 7AJ

Registered and Head Office of BT

BT Centre
81 Newgate Street
London EC1A 7AJ

Financial Adviser and Sponsor to BT and BT Group plc

Cazenove & Co. Ltd
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Joint Financial Advisers to BT and mmO₂ plc

Merrill Lynch International
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London EC2Y 9LY

Morgan Stanley & Co. International Limited
25 Cabot Square
Canary Wharf
London E14 4QA

Schroder Salomon Smith Barney
Victoria Plaza
111 Buckingham Palace Road
London SW1W 0SB

Legal Advisers to BT and BT Group plc on English Law

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London EC1A 7AJ

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Legal Advisers to BT and BT Group plc on US Law

Shearman & Sterling
Broadgate West
9 Appold Street
London EC2A 2AP

Legal Advisers to BT and mmO₂ plc on English and US Law

Freshfields Bruckhaus Deringer
65 Fleet Street
London EC4Y 1HS

Auditors

PricewaterhouseCoopers
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The Causeway
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Part 1: ***Letter from the Chairman of BT***

Recommended proposals for the demerger of mmO₂, the creation of two new holding companies and other matters

To BT Shareholders and, for information only, holders of BT ADSs and participants in the BT Employee Share Ownership Scheme and the BT EasyShare Service

Recommended proposals for the demerger of mmO₂, the creation of two new holding companies and other matters

18 September 2001

Dear Shareholder,

I am writing to you today to seek your support for the next stage in our current restructuring: the demerger of the mmO₂ business (formerly known as BT Wireless); the creation of two new holding companies; and other matters.

With your support, following the Demerger you will be a shareholder in two new companies, BT Group plc and mmO₂ plc. Shares in both companies will be admitted to the Official List and traded on the London Stock Exchange, their ADSs will be traded on the New York Stock Exchange and we expect both companies to be included in the FTSE 100.

The Proposals are important and require your approval at two separate meetings: the Court Meeting and the Extraordinary General Meeting, both of which will be held on 23 October 2001.

Your Board unanimously recommends you to vote in favour of the Proposals and urges you to complete, sign and return the Forms of Proxy enclosed with this document as soon as possible or, alternatively, to appoint a proxy in accordance with the procedures set out in Part 2 of this document.

Background to the Proposals

Your Board is committed to implementing structural change to provide commercial and financial flexibility for the Group. In my letter to you of 10 May 2001, I described a number of stages which we envisaged would take place over the forthcoming year. These included a rights issue to raise £5.9 billion, the sale or demerger of Yell, the creation of a new holding company structure, the proposed demerger of mmO₂ and the positioning of the BT Group as a focused European network and retail business.

We have made a good start to implementing these stages. As you may be aware:

- the Rights Issue closed on 15 June 2001 and we raised approximately £5.9 billion, net of expenses;
- we have completed the sale of our investments in Japan, in Airtel of Spain and in Rogers Wireless of Canada and have sold Yell, for a combined total of £7.0 billion; and
- since 31 March 2001, we have reduced our level of net debt from £27.9 billion, through the Rights Issue and the disposal of non-core assets and businesses, so that our net debt as at 30 June 2001 was £17.5 billion.

Part 1: Letter from the Chairman of BT

This document contains details of the proposals to demerge mmO₂, to create the two new holding companies and also to reduce the capital of BT Group plc to create distributable reserves in BT Group plc. It also gives more information on the businesses which will comprise the BT Group.

Demerger of the mmO₂ business

Your Board believes that, given the different market focus and expected growth characteristics of the BT Group and mmO₂, these businesses would benefit from independent access to the debt and equity markets. Your Board further believes that shareholders' interests are best served through the demerger of mmO₂, as BT Shareholders should benefit directly from value created by the mmO₂ business. On Demerger, mmO₂ will have net debt of approximately £500 million including loan indebtedness to the BT Group. mmO₂ plc will refinance and repay its debt to the BT Group shortly after the Demerger.

mmO₂ is a leading provider of mobile communications services in Europe. As at 31 March 2001, its businesses served 16.5 million mobile customers in the UK, Germany, Ireland, the Netherlands and the Isle of Man. These businesses are all wholly owned and together they cover territories with a total population of over 160 million people. The combined turnover of the mmO₂ business for the year ended 31 March 2001 reached £3,399 million, up 29 per cent. from £2,636 million for the preceding year.

As a separate entity, the board of mmO₂ believes that the mmO₂ Group will benefit from:

- greater speed and flexibility in the market by operating independently from the BT Group;
- greater management focus on the specific objectives of its mobile telecommunications business;
- independent access to the capital markets;
- a more transparent assessment by the market of its value;
- the ability to incentivise its employees in a manner more directly related to its performance; and
- an enhanced ability to participate in any consolidation of the European mobile sector.

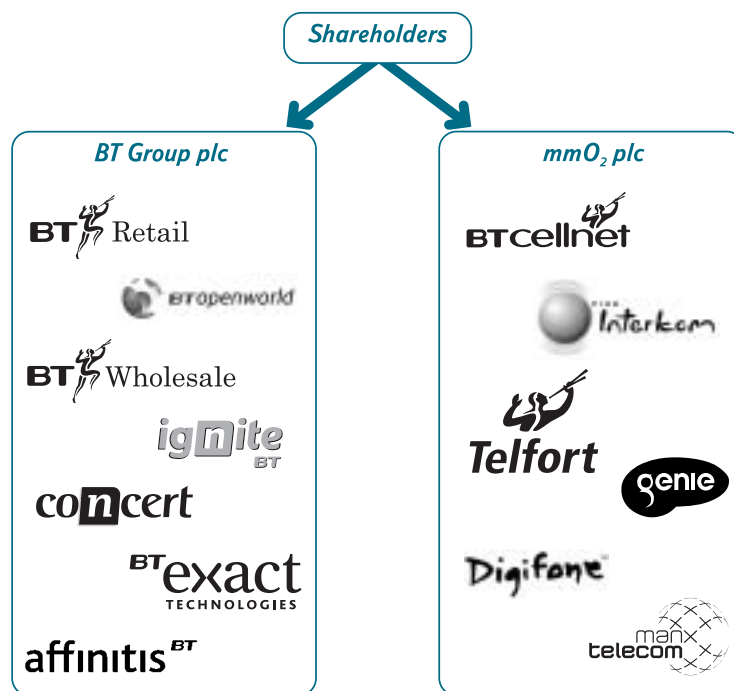
Further information on mmO₂ is set out in the accompanying mmO₂ Summary Particulars and further financial information on mmO₂ is set out in Part 5 of this document. Shareholders should read the whole of this document and the mmO₂ Summary Particulars and not just rely on the information in this letter.

New holding companies

The Proposals include the creation of two new holding companies, one for the BT Group businesses and one for the mmO₂ business.

The new holding company structure for the BT Group businesses will provide flexibility to enable further structural change, should the board of BT Group plc believe that such moves would be in the best interests of that company and its shareholders as a whole.

The new holding company structure for mmO₂ will facilitate the demerger of the mmO₂ business. This is proposed to be done by way of a Court-approved scheme of arrangement and needs your approval.



Other matters

We are also seeking your approval for a Court-approved reduction of capital of BT Group plc. Under this proposal, the share capital of BT Group plc will be reduced in order to increase by approximately £9.5 billion the level of reserves available for future distributions to shareholders of BT Group plc (for example, dividends) or to facilitate any future transactions.

In addition, shareholder approval will be sought at the EGM for the establishment of the mmO₂ Share Plans, a range of employee share plans which mmO₂ plc has adopted. Details of these plans are contained in Part 10 of the mmO₂ Summary Particulars.

BT Group plc has adopted a range of share plans for use following Admission. As these are substantially the same as those currently operated by BT, for which shareholder approval has, where required, already been obtained, the BT Group plc plans are not being submitted for shareholder approval at the EGM. Details of the impact of the Proposals on the BT Share Schemes are set out in paragraph 14 of Part 3 of this document.

We will also be seeking your approval for certain amendments to the BT Articles to enable the implementation of the Scheme. Details of these amendments are described in paragraph 21 of Part 3 of this document.

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Full details of the Proposals are set out in Parts 1 and 3 to 8 of this document but, put simply, provided they are approved by BT Shareholders and implemented in full, you will become a shareholder in two new listed companies, BT Group plc, which will be the parent company for the BT Group businesses, and mmO₂ plc, which will be the parent company for the mmO₂ business. The conditions which must be satisfied, or waived, before each of the Scheme, the Demerger and the BT Group Reduction of Capital can be implemented are set out in Part 3 of this document. If the Demerger does not proceed for any reason, we would still intend to implement a new holding company structure.

Strategy

BT Group plc

Following the Demerger, BT Group plc will be the holding company for a balanced portfolio of businesses focused on the provision of voice and data services in the UK and elsewhere in Europe. Its aim will be to create value based on service excellence, its brand leadership, its large-scale networks and BT's existing customer base. It will also develop and market new higher value broadband and internet products and services. The BT Group will comprise principally four separately managed lines of business, BT Retail, BTopenworld, BT Wholesale and BT Ignite, together with its Concert joint venture. BT Retail and BT Wholesale are well established, cash generative businesses with market-leading positions in the UK, while BT Ignite and BTopenworld are rapidly developing businesses, active in the markets for internet and data services, solutions and broadband.

The proposed organisation of the BT Group reflects the process of structural change upon which BT embarked in 2000. The Group has moved away from a geographically-based organisational structure to one based around separate lines of business. It has been creating commercial boundaries and establishing separate balance sheets for each of the lines of business. BT Group's goal will be to improve operational focus and management accountability of the individual operations, thereby enhancing transparency and the ability of the BT Group to serve the needs of its customers more effectively.

Building on the establishment of separate business units, the Directors are currently considering whether to seek the grant of separate telecommunications licences for certain operations. Any review may or may not lead towards further separation of these businesses from each other. In the current market climate, the Board remains confident for the time being that value can be generated for shareholders without the full or partial listing of any line of business.

Further details on BT Group's activities and strategy are set out in Part 4 of this document.

mmO₂ plc

Following the Demerger, mmO₂ plc will be an independent company with its own management and directors. As set out in the accompanying mmO₂ Summary Particulars, the strategy of mmO₂ plc will be:

- to emphasise operational performance and execution;
- to achieve greater integration by managing its businesses cohesively; and
- to lead in new data services through GPRS and UMTS.

As part of its emphasis on operational performance and execution, mmO₂ plc will focus on attracting and retaining higher value customers across its businesses. It will also reduce its

emphasis on new customer acquisition while increasing its focus on customer retention and conversion. One of its key initiatives will be to achieve competitive scale in Germany and the Netherlands through exploiting existing and new distribution channels and developing innovative value added services. Cost control will also remain a key initiative throughout its businesses.

As all its operating businesses will be wholly owned, mmO₂ plc's aim will be to achieve significant efficiencies by managing its businesses cohesively. It intends to integrate mmO₂'s product and network development and leverage its technology across its businesses. It will also continue mmO₂'s group-wide procurement initiatives, which have already generated substantial savings. Earlier this month, the new brand, O₂, was launched which mmO₂ plc believes will help to reinforce a consistent vision and strategic focus across the mmO₂ Group as each of the businesses migrates to the new brand.

mmO₂ plc believes its positioning as a leader in mobile data will be critical to its future success. mmO₂ is building its services and applications pipeline, focusing on applications that will deliver early revenues and expanding its range of services for business customers. mmO₂ plc intends to build on the relationships forged by Genie, its mobile internet business, with key suppliers and early-adopter customers to increase average revenues per user and reduce churn across its customer base.

Details on the continuing relationship between BT Group and mmO₂ are set out in Parts 3 and 7.

Timing and effect of the Proposals

BT shareholder meetings to approve the Proposals will be held on 23 October 2001. If the Proposals are approved and implemented in full as contemplated, BT Shareholders will receive the same number of shares in each of BT Group plc and mmO₂ plc as the number of BT Shares that they previously held. It is anticipated that the Demerger will become effective on Monday 19 November 2001 and that trading in both the BT Group Shares and the mmO₂ Shares will commence on that date.

The BT Group Shares and the mmO₂ Shares will each have their own market price. Both the BT Group Shares and the mmO₂ Shares will be traded on the London Stock Exchange and their ADSs will be traded on the New York Stock Exchange. No application is being made for either the BT Group Shares or mmO₂ Shares to be listed in Japan.

Full details on voting information and a description of the resolutions to be proposed are set out in Parts 2 and 3 of this document respectively.

New boards

On Demerger, each new company will be separately managed and have its own board of directors.

After Admission the board of BT Group plc will comprise the current directors of BT as listed on page 9 (other than Dr Iain Anderson, who is retiring from the board of BT on 30 September 2001). Following the Demerger, it is intended to appoint some new directors to the BT Group board.

On Admission the board of mmO₂ plc will comprise David Varney (Executive Chairman), Andrew Sukawaty (Non-Executive Deputy Chairman), Peter Erskine (Chief Executive),

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David Finch (Chief Financial Officer) and Neelie Kroes, Paul Myners and Stephen Hodge (Non-Executive Directors). The board of mmO₂ plc is seeking to appoint an additional non-executive director in due course.

Current trading and prospects

BT's operating performance since 31 March 2001, the end of the last financial year, has been satisfactory, although profits have been impacted by increased depreciation, amortisation and interest charges.

Considerable progress has been made in reducing net debt, primarily by means of the Rights Issue and disposals of non-core businesses, and this will benefit future financing costs. Prospects for the remainder of the financial year continue to be satisfactory.

Recent developments

BT is continuing discussions with AT&T concerning the future of the Concert joint venture. Options currently being considered include unwinding the Concert joint venture. Other strategic alternatives to Concert are still being discussed, including continuation of the venture in a modified form. In the event that an unwinding of the Concert joint venture is agreed, and depending on the way that it is implemented, the financial effects on the Group are likely to include cash and non-cash restructuring costs which could be substantial. These discussions are dealt with in more detail in Part 4 of this document.

In addition, BT expects to take an impairment charge against certain of its other investments, including AT&T Canada, in its half year results to 30 September 2001, totalling approximately £500 million. BT's investment in AT&T Canada is discussed in more detail in Part 4 of this document.

BT expects to complete a sale and leaseback property transaction by 31 December 2001, under which it expects to receive proceeds of approximately £2.3 billion. The Board now expects to reduce net debt to between £15 billion and £17 billion at 31 March 2002 on the assumption that the property sale and leaseback transaction has been completed.

Dividends

The Board has decided that there will be no interim dividend for the year ending 31 March 2002. The board of BT Group plc expects to recommend a final dividend for the BT Group in respect of the year ending 31 March 2002 and to resume regular dividend payments thereafter. However, the level of dividends which BT Group plc expects to pay is likely to be substantially lower than that paid by BT previously.

The board of mmO₂ plc currently expects that all available cash from operations will be used to finance the growth and development of the mmO₂ business and to meet the mmO₂ Group's capital and other expenditure requirements. Therefore, mmO₂ plc does not anticipate paying dividends in the foreseeable future.

Further information

Notices convening the Court Meeting and the Extraordinary General Meeting are set out on pages 94 to 96 of this document. You should read the rest of this document which contains important information to help you to decide how to vote. Please do not just rely on the information contained in this letter.

Additional information on BT Group plc is contained in Parts 4, 6 and 7 of this document. If you wish, you can obtain a copy of the BT Group Listing Particulars, free of charge, by calling the Shareholder Helpline on **Freephone 0808 100 4141** (or +44 20 7864 9074 from outside the UK), or from BT's registered office or website (www.bt.com).

Additional information on the mmO₂ Group is contained in the mmO₂ Summary Particulars which accompany this document. If you wish, you can also obtain a copy of the mmO₂ Listing Particulars, free of charge, by calling the Shareholder Helpline on **Freephone 0808 100 4141** (or +44 20 7864 9074 from outside the UK) or, from BT's registered office or website (www.bt.com).

Holders of BT ADSs should read Part 8 of this document, which contains further important information regarding the Proposals which are relevant to them. US Holders of BT Shares and holders of BT ADSs will not be sent the mmO₂ Summary Particulars. They will be sent the mmO₂ Form 20-F. US Holders of BT Shares and holders of BT ADSs when referred by this document to the mmO₂ Summary Particulars should instead refer to the mmO₂ Form 20-F.

Action to be taken

You are being asked to approve the Demerger because of the relative size of the mmO₂ business when compared to that of the Group. We are also asking you to approve the creation of the new holding company for the mmO₂ business which is to be implemented by way of a Court approved scheme of arrangement. It is very important that you use your vote in order that the Court can be satisfied that the votes cast constitute a fair representation of the views of the BT Shareholders.

With this document you will find two Forms of Proxy, a blue one for the Court Meeting and a pink one for the Extraordinary General Meeting, which are the meetings at which your Board will ask you to approve the Proposals. **Your votes count. Please ensure you complete, sign and return both Forms of Proxy to Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA as soon as possible but, in any event, so as to be received by no later than 10.30 a.m. and 10.45 a.m. on 21 October 2001 for the Court Meeting and the Extraordinary General Meeting respectively.** You may return the Forms of Proxy by post in the reply-paid envelope provided or by fax to **Freephone 0808 100 4142** (or +44 20 7392 4128 from outside the UK). In the case of the Court Meeting, the form can also be handed to Lloyds TSB Registrars at the meeting. Alternatively, you may appoint a proxy using the internet by logging on to the website www.sharevote.co.uk or by telephone by calling **Freephone 0808 100 4141** (or +44 20 7864 9074 from outside the UK). If you have registered for a Shareview portfolio, you may appoint a proxy by logging on to the website www.shareview.co.uk and clicking on "Company Meetings". Full details of the procedure are given on the websites.

The Court Meeting and the Extraordinary General Meeting will be held on 23 October 2001 at 10.30 a.m. and 10.45 a.m. respectively in Hall 5 at the National Exhibition Centre, Birmingham B40 1PP.

Helpline

If you have any questions about the Proposals or are in any doubt as to how to complete the Forms of Proxy, please call the Shareholder Helpline on telephone number **Freephone 0808 100 4141 (or +44 20 7864 9074 from outside the UK) between**

Part 1: Letter from the Chairman of BT

8.30 a.m. and 8.30 p.m. on Monday to Friday and 10.00 a.m. to 4.30 p.m. on Saturdays, Sundays and UK public holidays. For legal reasons, the helpline will not be able to provide advice on the merits of the Proposals or to provide financial advice.

Share dealing facilities

Each of BT Group plc and mmO₂ plc are proposing to offer certain of their shareholders a low-cost share sale facility for a limited period after the Demerger becomes effective. This will enable shareholders with a limited number of shares who wish to sell all of their BT Group Shares and/or all of their mmO₂ Shares, to do so at a low commission rate per transaction. In addition, BT Group plc and mmO₂ plc propose to offer these shareholders a low-cost share purchase facility for a limited period after the Demerger becomes effective which will enable those shareholders who wish to purchase additional BT Group Shares and/or additional mmO₂ Shares, up to a maximum value of £8,000 in each company, to do so at a low commission rate per transaction (including any applicable stamp duty or stamp duty reserve tax). Further details of the share sale and purchase facilities will be sent to shareholders after the Demerger has become effective.

These share dealing facilities will only be made available to shareholders who have registered addresses in the UK, Isle of Man or Channel Islands.

Recommendation

Your Board, having been so advised by Cazenove, believes that the Proposals (including the Scheme) are in the best interests of BT Shareholders as a whole. In providing advice to the Board, Cazenove has placed reliance on the Directors' commercial assessment of the Proposals. Accordingly, your Board unanimously recommends you to vote in favour of the resolutions to be proposed at the Court Meeting and the EGM as the Directors intend to in respect of their beneficial holdings, which amount in total to 375,224 BT Shares, representing approximately 0.004 per cent. of the issued share capital of BT.

*Yours sincerely,
Christopher Bland*

Sir Christopher Bland
Chairman

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81 Newgate Street
London
EC1A 7AJ

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Registered Office
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Registered in England no. 1800000

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Part 2: Voting information

This section provides information for BT Shareholders and participants in the BT Employee Share Ownership Scheme and the BT EasyShare Service on how to vote in connection with the Court Meeting and EGM. Holders of BT ADSs are referred to Part 8 of this document for important information on the voting procedures relating to them. Other “participants” (e.g. the holders of BT Shares in PEPs and ISAs) should consult their relevant plan managers.

Part 2: Voting information

The Meetings

Two meetings will be held on 23 October 2001:

1. a Court Meeting, the notice for which is set out on page 94 of this document; and
2. an EGM, the notice for which is set out on pages 95 to 96 of this document.

Both meetings will be held in Hall 5 at the National Exhibition Centre, Birmingham B40 1PP. The doors will open at 9.30 a.m. and the Court Meeting will start promptly at 10.30 a.m.

The Court Meeting is a meeting of BT Shareholders ordered by the Court as part of the procedure for approving the proposal to create a new holding company which will be the holding company of the mmO₂ business if the Demerger becomes effective, as described in this document.

BT Shareholders are being asked to approve the Scheme, details of which are contained in the explanatory statement in Part 3 of this document.

The EGM will follow immediately after the Court Meeting. BT Shareholders are being asked to vote on resolutions in connection with the Scheme, the Demerger and the BT Group Reduction of Capital. The resolutions provide for:

- (a) approval of various actions necessary to implement the Scheme (Resolution 1a);
- (b) amendments to the BT Articles (Resolution 1b);
- (c) approval of the BT Group Reduction of Capital (Resolution 2);
- (d) approval of the Demerger (Resolution 3); and
- (e) approval of the mmO₂ Share Plans (Resolutions 4 and 5).

Resolutions 1 and 2 are special resolutions and resolutions 3, 4 and 5 are ordinary resolutions.

Information for BT Shareholders

You have the right to attend, speak and vote at the Court Meeting and the EGM (or, if you are not attending the meetings, to appoint someone else as your “proxy” to vote on your behalf) if you are on the BT register at 6.00 p.m. on 21 October 2001. If either meeting is adjourned, you must be on the BT register 48 hours before the time for the adjourned meeting to have the right to attend, speak and vote or to appoint a proxy.

The number of shares you hold as at the above register deadline will determine how many votes you or your proxy will have in the event of a poll.

If you are coming to the meetings

You should sign the accompanying Intention to Attend Form, detach it and return it as soon as possible to Lloyds TSB

Registrars either in the reply-paid envelope provided, or by faxing the whole form to **Freephone 0808 100 4142** (or +44 20 7392 4128 from outside the UK). You will then be sent a leaflet giving further details about the arrangements for the meetings and how to get there. Alternatively, you can indicate your intention to attend by telephone or using the internet (see below).

Admission Form

Please keep and bring with you the accompanying dual-purpose Admission Form/Forms of Proxy. It will authenticate your right to attend, speak and vote and will speed your admission. You will need to keep this form until the end of the meetings. You may also find it helpful to bring this document with you so that you can refer to it at the meetings.

If you are not coming to the meetings

You may appoint a proxy – someone who will attend the meetings on your behalf and vote in the event of a poll – by completing the accompanying Forms of Proxy. Please note that your proxy is not entitled to vote on a show of hands. A proxy need not be a shareholder of the Company.

You will have been sent two Forms of Proxy, a blue one for the Court Meeting and a pink one for the EGM. Before completing the Forms of Proxy, please read the explanatory notes on the back of the forms.

Posting and fax details

*Please return your Forms of Proxy to Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA so as to be received not later than 10.30 a.m. on 21 October 2001 (for the Court Meeting) and 10.45 a.m. on 21 October 2001 (for the EGM), either by post in the reply-paid envelope provided, or by fax to **Freephone 0808 100 4142** (or +44 20 7392 4128 from outside the UK).* However, in the case of the Court Meeting, the form can also be handed to Lloyds TSB Registrars at the meeting. Returning the Forms of Proxy will not prevent you from attending in person and voting at the meetings. In the event of a poll on which a shareholder votes in person, his/her proxy votes lodged with Lloyds TSB Registrars will be excluded.

Internet

You may, if you wish, register the appointment of a proxy for these meetings electronically, by logging on to the website, www.sharevote.co.uk. You will need your Voting Reference Number (this is the 24 digit number printed below your name and address on the Forms of Proxy). You may use either the number printed on the Form of Proxy for the Court Meeting or that printed on the Form of Proxy for the EGM. Full details of the procedure are given on that website. You may also indicate your intention to attend the meetings on this website.

Alternatively, if you have registered for a Shareview portfolio, you may appoint a proxy by logging on to the website www.shareview.co.uk and clicking on “Company Meetings”. If you wish to use the internet, the proxy appointments and voting instructions *must be received by Lloyds TSB Registrars not later than 10.30 a.m. on 21 October 2001 for the Court Meeting and 10.45 a.m. on 21 October 2001 for the EGM. Please note that any electronic communication that is found to contain a computer virus will not be accepted.*

Telephone

You may, if you wish, give your instructions by telephone before 10.30 a.m. on 21 October 2001 (in the case of the Court Meeting) or 10.45 a.m. on 21 October 2001 (in the case of the EGM) by calling **Freephone 0808 100 4141** (or +44 20 7864 9074 from outside the UK) between 8.30 a.m. and 8.30 p.m. on Monday to Friday and 10.00 a.m. to 4.30 p.m. on Saturdays, Sundays and UK public holidays.

Conditions of use of internet and telephone services

The use by BT Shareholders and participants in the BT Employee Share Ownership Scheme and the BT EasyShare Service of Lloyds TSB Registrars’ internet and telephone proxy appointment and voting instruction services (the “Internet Service” and “Telephone Service” respectively) in connection with the Court Meeting and the EGM, is governed by Lloyds TSB Registrars’ conditions of use of those services. These conditions of use are legally binding.

When the Voting Reference Number is entered and the icon “GO” is clicked (in the case of the Internet Service) or the Voting Reference Number is given to the telephone operator (in the case of the Telephone Service) the user will be deemed to confirm that he, she or it:

- (i) is registering to use the Internet Service or Telephone Service;
- (ii) has the right to vote his, her or its shares (in the case of BT Shareholders) and/or give instructions to Lloyds TSB Registrars Corporate Nominee Limited (in the case of participants in the BT EasyShare Service) and/or give instructions to BT Employee Shares Trustees Limited (in the case of the BT Employee Share Ownership Scheme); and
- (iii) has read, understood and agreed to be bound by these conditions of use.

Material particulars of the conditions governing the use of the Internet Service are set out in paragraph 6 of Section D of Part 7 of this document. The conditions are set out in full on the website, www.sharevote.co.uk, and may be read by

logging on to that site and entering the Voting Reference Number printed on the Forms of Proxy or other voting forms.

The conditions governing the use of the Telephone Service are set out in paragraph 7 of Section D of Part 7 of this document.

BT Shareholders or other participants outside the UK

Shareholders or other participants with addresses outside the UK should reply using the return-addressed envelope provided. If they live in a country covered by the International Business Reply Service, postage on the envelope has been prepaid.

Joint shareholders

All joint shareholders may attend and speak at the meetings or appoint a proxy. If more than one joint shareholder votes or appoints a proxy, the only vote or appointment which will count is the vote or appointment of the first shareholder listed on the register of members.

Information for participants in the BT Employee Share Ownership Scheme and/or the BT EasyShare Service

BT Employee Share Ownership Scheme

Please note that participation in the BT Employee Share Ownership Scheme (the “BT ESOS”) does not give you the right to attend the Court Meeting or EGM.

If you are a participant in the BT ESOS, you may instruct BT Employee Shares Trustee Limited (the “Trustees”) to vote the shares held by them on your behalf by completing the accompanying Voting Instruction Forms. You will have been sent two Voting Instruction Forms, a blue one for the Court Meeting and a pink one for the EGM. Before completing the accompanying Voting Instruction Forms, please read the explanatory notes on the back of the forms.

Posting and fax details

*Please return your Voting Instruction Forms so as to be received by Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA not later than 10.30 a.m. on 21 October 2001 (for the Court Meeting) and 10.45 a.m. on 21 October 2001 (for the EGM), either by post in the reply-paid envelope provided, or by fax to **Freephone 0808 100 4142** (or +44 20 7392 4128 from outside the UK).*

Internet and telephone

Participants in the BT ESOS may give their voting instructions to the Trustees electronically or by telephone (see the notes headed “Internet” and “Telephone” under “Information for BT Shareholders” above).

Part 2: Voting information

BT EasyShare Service

If you hold BT Shares through the BT EasyShare Service, you will have been sent two Voting Forms marked “BT EasyShare”, a blue one for the Court Meeting and a pink one for the EGM. Before completing the Voting Forms, please read the explanatory notes on the back of the forms.

If you are not coming to the meetings

You should complete and sign Part A of each of the accompanying Voting Forms and return them as soon as possible to Lloyds TSB Registrars in the reply-paid envelope provided. Part A of each form directs Lloyds TSB Registrars Corporate Nominee Limited (“NomineeCo”) to appoint a person as its proxy to attend, speak and, on a poll, vote as you want on your behalf. You may instruct NomineeCo to appoint the Chairman or someone of your choice as its proxy to attend and vote on a poll at the meetings.

Posting and fax details

*Please return your Voting Forms to Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA so as to be received not later than 10.30 a.m. on 21 October 2001 (for the Court Meeting) and 10.45 a.m. on 21 October 2001 (for the EGM), either by post in the reply-paid envelope provided, or by fax to **Freefone 0808 100 4142** (or +44 20 7392 4128 from outside the UK).*

Internet and telephone

Participants in the BT EasyShare Service may also complete their Voting Forms electronically or by telephone (see the notes headed “Internet” and “Telephone” under “Information for BT Shareholders” above).

If you are coming to the meetings

You should complete and sign Part B of each of the accompanying Voting Forms and return them as soon as possible to Lloyds TSB Registrars in the reply-paid envelope provided. You will then be sent a leaflet giving further details about the arrangements for the meetings and how to get there.

BT EasyShare participants are able to speak and vote their EasyShare shares on a poll at the meetings but should note that, because these shares are held through NomineeCo, attendance will be as NomineeCo’s proxy. This applies also to joint holders, who may attend and speak at the meetings in the same capacity.

Admission Form

Please detach the Admission Form and bring it with you to the meetings. It will authenticate your right to attend and will speed your admission. You may also find it helpful to bring this document with you so that you can refer to it at the meetings.

If you hold your BT Shares in more than one way

If you hold shares in your own name and/or through the BT EasyShare Service and/or the BT ESOS, you will have been sent separate forms for each holding. You will have to give separate instructions for each holding.

Part 3:
***Explanatory statement from the
Company's financial adviser***

*To BT Shareholders and, for information only, holders of BT ADSs
and participants in the BT Employee Share Ownership Scheme and
the BT EasyShare Service*

Recommended proposals for the demerger of mmO₂, the creation of two new holding companies and other matters

CAZENOVE

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Dear Shareholder

1. Introduction

Your attention is drawn to the letter from the Chairman of BT in Part 1 of this document, which contains the background to and the reasons for the Proposals and the unanimous recommendation by the Board that shareholders vote in favour of the resolutions at the forthcoming Court Meeting and Extraordinary General Meeting, and to Part 2 of this document, which contains voting information on the Proposals. That letter, and Parts 2, and 4 to 8 of this document, form part of this explanatory statement.

2. Summary of the Proposals

The Proposals set out in this document form part of the Group's restructuring strategy which was announced on 10 May 2001. Shareholder approval is being sought to demerge the mmO₂ business from the rest of the Group, to create two new listed holding companies (one for the BT Group and one for the mmO₂ Group) and to reduce the capital of BT Group plc.

In order to effect the Demerger in the most efficient manner, BT plans to demerge the BT Group businesses from mmO₂ plc. However, reflecting the substance of the Proposals, this document refers to the demerger of mmO₂ from the Group.

The demerger of mmO₂ and the establishment of a new corporate structure entail a number of steps. In summary, the first of these is the creation of a new holding company, mmO₂ plc, by means of a Court-approved scheme of arrangement. This is a separate transaction to the Demerger, although it will occur shortly beforehand. Once the Scheme has become effective, BT will transfer the mmO₂ business to this holding company. Thereafter, it is expected that BT (holding all of the BT Group businesses) will, under the Demerger, be moved out from underneath this new holding company to become a subsidiary of a second newly-incorporated holding company, BT Group plc. The result will be that mmO₂ plc will be the parent company of the mmO₂ business and BT Group plc will be the parent company of the BT Group businesses. BT Group plc and mmO₂ plc will each issue shares to former shareholders of BT. The Demerger will then be complete and you will be a shareholder in two separately listed companies, BT Group plc and mmO₂ plc.

Once the Demerger has become effective, it is also proposed that the share capital of BT Group plc will be reduced pursuant to a Court-approved reduction of capital. This will increase the level of reserves available for future distributions to shareholders of BT Group plc (e.g. dividends) or to facilitate any future transactions.

3. Description of the Proposals

The Scheme

As the first stage of the Proposals, a new holding company, mmO₂ plc, will become the ultimate holding company of the Group pursuant to a scheme of arrangement under section 425 of the Companies Act.

Under the terms of the Scheme, BT Shareholders will exchange their BT Shares for mmO₂ Shares on the following basis:

for each BT Share one mmO₂ Share

Under the Scheme:

- (a) the BT Shares will be cancelled and the holders of BT Shares at the Scheme Record Time will be allotted one mmO₂ Share, credited as fully paid, for each BT Share then held; and
- (b) following the cancellation of the BT Shares, the issued share capital of BT will be restored to its former amount by applying the reserve arising in the books of BT as a result of the cancellation of the BT Shares in paying up in full new Ordinary Shares of an equivalent nominal amount. These will be issued to mmO₂ plc (and/or its nominees).

As a result, mmO₂ plc will become the holding company of the Group and will be owned by the former BT Shareholders. Except in the circumstances described below, mmO₂ plc will remain the holding company of the Group only until completion of the Demerger which is expected to take place a short time after the Scheme becomes effective.

The Scheme is not conditional upon the Demerger proceeding, but the Demerger will not proceed unless the Scheme has become effective. In the event that the Demerger does not proceed, the new holding company created under the Scheme will be the holding company for the Group with the name BT Group plc, its board of directors will comprise the existing directors of BT (save for Dr Iain Anderson) and it will adopt the same principles of corporate governance as BT.

The Demerger

Under the Demerger, BT Group plc will issue BT Group Shares to mmO₂ Shareholders at the Demerger Record Time on the following basis:

for each mmO₂ Share one BT Group Share

In summary therefore, if the Scheme and Demerger are approved and implemented in full as contemplated, **BT Shareholders will receive the same number of shares in each of BT Group plc and mmO₂ plc as the number of BT Shares that they previously held.**

The Demerger is expected to be effected as follows:

- (a) after the Scheme has become effective, BT will transfer O₂ Limited, a wholly owned subsidiary which is currently the holding company of the mmO₂ Group, to mmO₂ plc, for a consideration equal to its book value as shown in the accounts of BT, with such amount left outstanding as an inter-company debt;
- (b) BT will pay a dividend to mmO₂ plc of an amount equal to the aggregate of the book value of BT as shown in the accounts of

mmO₂ plc and the expenses expected to be incurred by mmO₂ plc in connection with the Proposals;

- (c) mmO₂ plc will transfer BT to a wholly owned subsidiary, BT Group Investments, for a combination of inter-company debt and shares;
- (d) the debt owed by mmO₂ plc to BT described in paragraph (a) above will be assumed by BT Group Investments (in substitution for mmO₂ plc) in consideration for the discharge of the debt owed by BT Group Investments to mmO₂ plc described in paragraph (c) above; and
- (e) mmO₂ plc will declare a dividend of an amount equal to the book value of its shareholding in BT Group Investments (the "Demerger Dividend") which will be satisfied *in specie* by the issue by BT Group plc of shares, credited as fully paid, to mmO₂ plc Shareholders on the basis set out above, in consideration of the transfer of BT Group Investments (together with its then wholly owned subsidiary BT) to BT Group plc. The existing shareholders of mmO₂ plc will have already approved the Demerger Dividend, subject to the satisfaction of certain conditions.

As part of the Scheme, the Court will be asked to approve the loan to the trustees of the Special Purpose Trust described in paragraph 14 below and the steps set out in sub-paragraphs (a) and (d) above. The Court will also be asked to approve the payment by BT of the costs and expenses relating to the Proposals as referred to in paragraph 10 of Section D of Part 7 of this document. Without such approval, those steps would or might be unlawful as involving financial assistance prohibited by section 151 of the Companies Act.

The BT Group Reduction of Capital

Following the Demerger becoming effective, the Court will, on 20 November 2001, be asked to consider the BT Group Reduction of Capital. This is to increase the level of reserves available for future distributions to shareholders of BT Group plc or otherwise to facilitate any future transactions. Under the BT Group Reduction of Capital, the capital of BT Group plc will be reduced by decreasing the nominal amount of each issued BT Group Share from 115 pence to 5 pence. The existing shareholders of BT Group plc have already resolved, conditional on the BT Group Shares being issued pursuant to the Demerger, to reduce the capital so issued. The BT Group Reduction of Capital also requires the confirmation of the Court and, if so confirmed, will create a new reserve in the books of BT Group plc of approximately £9.5 billion which will be available for future distributions to shareholders of BT Group plc or otherwise to facilitate any future transactions at the discretion of the directors of BT Group plc.

4. Conditions of the Proposals

The Scheme

The full implementation of the Scheme is subject to the following conditions being satisfied:

- (a) the Scheme being approved by a majority in number representing three-quarters in nominal value of the BT Shares

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- held by those members present and voting, either in person or by proxy, at the Court Meeting;
- (b) the First Special Resolution to approve the matters necessary to implement the Scheme being duly passed at the EGM;
 - (c) BT receiving confirmations and/or consents from relevant third parties and regulatory authorities in respect of any of the Proposals, in each case in a form satisfactory to it, or the Directors being satisfied that sufficient confirmations and/or consents have been received such that the Scheme is in the best interests of the Group as a whole;
 - (d) the UK Listing Authority agreeing or confirming its decision to admit the mmO₂ Shares to the Official List (subject to allotment) and the London Stock Exchange agreeing to admit the mmO₂ Shares to trading on its main market;
 - (e) the Scheme being sanctioned and the reduction of capital of BT provided for under the Scheme being confirmed by the Court; and
 - (f) an office copy of each of the orders of the Court sanctioning the Scheme and confirming the reduction of capital of BT provided for under the Scheme being delivered to the Registrar of Companies for registration and, in the case of the order of the Court confirming the reduction of capital of BT provided for under the Scheme, being registered by him.

The Directors will not take the necessary steps to enable the Scheme to be sanctioned by the Court unless, at the relevant time, conditions (c) and (d) above have been satisfied and they consider that it continues to be in BT's best interests that the Scheme should become effective.

The Demerger

The implementation of the Demerger is subject to the following conditions being satisfied:

- (a) the Scheme having become fully effective;
- (b) the ordinary resolution which will be proposed at the EGM to approve the Demerger being passed;
- (c) the board of directors of mmO₂ plc resolving, following the Scheme becoming effective, that the Demerger Dividend is in the best interests of the Group;
- (d) BT receiving confirmations and/or consents from relevant third parties and regulatory authorities in respect of the Demerger, in each case in a form satisfactory to it, or the Directors being satisfied that sufficient confirmations and/or consents have been received such that the Demerger is in the best interests of the Group as a whole; and
- (e) the UK Listing Authority agreeing or confirming its decision to admit the BT Group Shares to the Official List (subject to allotment) and the London Stock Exchange agreeing to admit the BT Group Shares to trading on its main market.

The BT Group Reduction of Capital

The implementation of the BT Group Reduction of Capital is subject to the following conditions being satisfied:

- (a) the Scheme having become fully effective;
- (b) the Demerger having become effective;
- (c) the special resolution which will be proposed at the EGM to approve the BT Group Reduction of Capital being passed;
- (d) the confirmation of the BT Group Reduction of Capital by the Court; and
- (e) the registration by the Registrar of Companies of an office copy of the Court order confirming the BT Group Reduction of Capital.

The directors of BT Group plc will not take the necessary steps to enable the BT Group Reduction of Capital to be confirmed by the Court unless, at the relevant time, they consider that it continues to be in BT Group plc's best interests that the BT Group Reduction of Capital should become effective.

5. Notes and bondholders and third party consents

The Board is mindful of BT's obligations to the holders of its outstanding notes and bonds and has consulted with The Law Debenture Trust Corporation p.l.c. which is trustee of certain of the notes and bonds. The trustee has taken independent legal and financial advice and has confirmed to BT that it will not take any steps in relation to the Demerger.

The consequences of BT not having obtained the third party confirmations and/or consents referred to in paragraph 4 above vary in relation to the relevant business, asset or contract.

BT will request the confirmations and/or consents that are required from third parties in relation to those businesses, assets or contracts which it believes, either alone or together with other businesses, assets or contracts, are or may be material to the Group. Although the Directors believe that all material confirmations and/or consents should be received in time for the Proposals to be implemented in accordance with the Expected Timetable of Principal Events, there can be no assurance that this will be the case. The implementation of each of the Scheme and the Demerger is conditional on BT receiving confirmations and/or consents from relevant regulatory authorities and other third parties in a form satisfactory to it, or the Directors being satisfied that sufficient confirmations and/or consents have been received such that the Scheme and/or the Demerger are in the best interests of the Group as a whole.

Where a confirmation or consent which is required for the implementation of the Scheme or the Demerger is not obtained prior to the Scheme Effective Time or the Demerger Effective Time respectively, the Directors will need to consider the materiality of the business, asset or contract to which that confirmation or consent relates, together with the consequences of proceeding without the confirmation or consent. These consequences will depend on the value of the business, asset or contract and the rights which are conferred on third parties if the Scheme or Demerger is implemented without confirmation or consent.

BT has already received confirmation from The Department of Trade and Industry that it would not be minded to revoke the licences granted to BT, BT Cellnet and BT3G Limited under Section 7 of the Telecommunications Act 1984.

6. Timetable

The Scheme will become effective to the extent necessary to enable BT to make the loan to the Special Purpose Trust described in paragraph 14 of this Part 3 when an office copy of the order of the Court sanctioning the Scheme is delivered to the Registrar of Companies. The Scheme will only become fully effective when the Court subsequently confirms the cancellation of the BT Shares and the Reduction Order has been registered by the Registrar of Companies. The BT Group Reduction of Capital will only become effective when an office copy of the Court order confirming it has been registered by the Registrar of Companies.

If the Court sanctions the Scheme and confirms the reduction of capital of BT provided for under it, and the other conditions to the implementation of the Scheme have been satisfied, it is expected that the Scheme will become fully effective at 5.30 p.m. on 16 November 2001. If the conditions to the implementation of the Demerger have been satisfied, the Demerger is expected to become effective at 8.00 a.m. on 19 November 2001. The BT Group Reduction of Capital is expected to become effective on 21 November 2001. If the Scheme has not become effective by 31 March 2002 (or any later date the Court may allow and BT and mmO₂ plc may agree), it will lapse and the Demerger and the BT Group Reduction of Capital will not proceed. In this event, mmO₂ plc would not become the parent of BT, BT Shareholders would remain shareholders of BT and would not receive mmO₂ Shares or BT Group Shares and the existing BT Shares would continue to be listed on the Official List and traded on the London Stock Exchange. If the Demerger has not occurred or the BT Group Reduction of Capital has not become effective by 31 March 2002, it, or they, as appropriate, will not proceed.

In the event that the Scheme proceeds, but the Demerger does not proceed, the new holding company created under the Scheme will be the holding company for the Group with the name BT Group plc, its board of directors will comprise the existing directors of BT (other than Dr Iain Anderson) and it will adopt the same principles of corporate governance as BT.

It is expected that dealings on the London Stock Exchange in BT Shares will cease by 5.15 p.m. on Friday, 16 November 2001, the same day as the Scheme becomes fully effective. It is expected that both the BT Group Shares and the mmO₂ Shares will be admitted to the Official List, and dealings in them will commence, at 8.00 a.m. on Monday, 19 November, the same day as the Demerger becomes effective.

Trading in both the BT Group ADSs and the mmO₂ ADSs on the New York Stock Exchange is expected to start on 19 November 2001.

The Court hearings to sanction the Scheme and to confirm the reduction of capital provided for under it are expected to be held on 14 and 15 November 2001 respectively. Shareholders have the right to attend those Court hearings in person or be represented by counsel to support or oppose the sanctioning of the Scheme and the confirmation of the reduction of capital provided for under it. The Court hearing to confirm the BT Group Reduction of Capital is expected to be held on 20 November 2001. Shareholders in BT Group plc will have the right to attend that Court hearing in person or be represented by counsel to support or oppose the confirmation of the BT Group Reduction of Capital.

7. Modifications to the Scheme

The Scheme contains a provision for BT and mmO₂ plc jointly to consent, on behalf of all concerned, at the Court hearing to sanction the Scheme, to modifications of, or additions to, the Scheme or to any condition which the Court may think fit to impose or approve. The Court would be unlikely to approve any modifications or additions or to impose or approve any condition which might be material to the interests of BT Shareholders unless the BT Shareholders were informed of any such modification, addition or condition. It will be a matter for the Court to decide, at its discretion, whether or not further meetings of BT Shareholders should be held. Similarly, if a modification, addition or condition is put forward which, in the opinion of the Directors, is of such a nature or importance as to require the consent of BT Shareholders at a further meeting, the Directors will not take the necessary steps to enable the Scheme to become effective unless and until such consent is obtained.

8. Nature of financial information

All financial information in this Part 3 and in Part 4 should be read in the light of the full text of this document and key or summarised information should not solely be relied upon.

9. Financial effects of the Scheme and the Demerger

Set out in Part 6 of this document is unaudited pro forma consolidated financial information which has been prepared for illustrative purposes only to show primarily the effects of the Demerger on the profit and loss account of BT as if it had become effective on 1 April 2000 and on the balance sheet of BT as if the Demerger had become effective on 30 June 2001.

The board of BT Group plc expects to recommend a final dividend in respect of the year ending 31 March 2002 and to resume regular dividend payments thereafter. However, the level of dividends which BT Group plc expects to pay is likely to be substantially lower than that paid by BT previously.

The board of mmO₂ plc currently expects that all available cash from operations will be used to finance the growth and development of the mmO₂ business and to meet the mmO₂ Group's capital and other expenditure requirements. Therefore, mmO₂ plc does not anticipate paying dividends in the foreseeable future.

Following the Demerger, the BT Group Shares and the mmO₂ Shares will each have their own market price.

On Demerger, mmO₂ will have net debt of approximately £500 million, including loan indebtedness to the BT Group. mmO₂ plc will refinance and repay its debt to the BT Group shortly after the Demerger. It is expected that BT Group's net debt after the Demerger will be approximately £0.5 billion lower than BT's net debt prior to the Demerger. BT's net debt at 30 June 2001 was £17.5 billion.

10. Continuing relationship between BT Group plc and mmO₂ plc

Prior to the Demerger, mmO₂ operates largely through subsidiaries, as a division of BT. However, some of its internal organisation and parts of its internal procedures are integrated with those of BT. Immediately following the Demerger, neither BT Group plc nor

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mmO₂ plc will have any shareholding in the other and the BT Group and the mmO₂ Group will operate as separate businesses.

BT Group plc, BT, mmO₂ plc and members of the mmO₂ Group have entered into several agreements for the purpose of giving effect to the Demerger and defining the continuing relationship between the BT Group and the mmO₂ Group, which have been concluded as a result of arm's length negotiations.

In particular, BT and O₂ Limited have entered into a Framework Agreement and a Wireless Trading Agreement and a series of other agreements for the provision by members of each of the BT Group and the mmO₂ Group to the other of certain services, on arm's length terms.

An anticipated result of the Demerger is the increase in freedom for both the BT Group and the mmO₂ Group to devise and employ strategies to generate additional benefit to customers and to shareholders. BT has agreed that, until 31 March 2003, it will not offer mobile products and services to the consumer market in the UK solely under the BT brand. It may, however, offer mobile products and services under the BT brand if co-branded with the brands of other mobile operators, and may offer fixed and mobile bundled products under the BT brand. Furthermore BT and BT Cellnet have agreed that, for a period of three years from the Demerger, BT will exclusively promote the mobile products and services of BT Cellnet to the business market in the UK. The BT Group has no current intention of obtaining licences to enter the UMTS or GSM wireless markets in the territories in which mmO₂ currently holds UMTS or GSM licences.

BT has entered into an agreement that provides for certain members of the mmO₂ Group, following the Demerger, to use certain trademarks and brands owned by the BT Group on a transitional basis, including, for example, the BT name and the half piper logo, to the extent that they use such name and logo immediately before the Demerger (except in respect of fixed line telephony goods and services and all other hardware and telecommunications equipment and certain internet related services).

The administration and services arrangements are on the whole designed to ensure that each party will bear an equitable share of the costs of the relevant services provided until they have established their own separate arrangements.

Further details of all these agreements, together with the Separation Agreement and the Tax Agreement, which have been entered into in relation to the Demerger, are summarised in paragraph 5 of Section D of Part 7.

The Airwave business provides radio network services to certain public safety organisations in the UK. In February 2000, BT was awarded a contract by the UK Government to provide mobile radio services to a number of police authorities. In addition to this contract, BT entered into a number of separate contracts with police authorities detailing the services to be provided to those authorities. By a business transfer agreement dated 18 September 2001 between BT and O₂ Limited, BT agreed to transfer the Airwave business to a subsidiary of O₂ Limited, including these contracts. Pursuant to this agreement, the parties have agreed to sub-contract the future performance of BT's obligations under any services contracts with

the police authorities which have not transferred to O₂ Limited by Demerger and O₂ Limited has agreed to indemnify BT against certain liabilities under those contracts until they are transferred to O₂ Limited.

Airwave has the opportunity to generate further revenues on a competitive basis from other public safety users such as fire and ambulance services. It is expected that O₂ Limited and BT will conclude an agreement to enable BT's distribution channels to serve this market.

11. Taxation

Information in relation to UK, Dutch and US taxation is contained in paragraphs 1 and 2 of Section D of Part 7 and paragraph 7 of Part 8, respectively.

Shareholders who are in any doubt as to their tax position, or who are resident in any other jurisdiction, should consult a professional adviser immediately.

12. Listing, dealing, certificates and settlement

Application has been made to the UK Listing Authority for up to 8.7 billion BT Group Shares and up to 8.7 billion mmO₂ Shares to be admitted to the Official List and to the London Stock Exchange for such shares to be admitted to trading on the London Stock Exchange. The last day of dealings in BT Shares is expected to be 16 November 2001. Admission of the BT Group Shares and the mmO₂ Shares to the Official List will become effective, and dealings in the BT Group Shares and the mmO₂ Shares will commence, at 8.00 a.m. on the Demerger Effective Date which is expected to be 19 November 2001.

A supplemental application will be made to list the BT Group ADSs, each representing 10 BT Group Shares, on the New York Stock Exchange. An original listing application will be made to list the mmO₂ ADSs, each representing 10 mmO₂ Shares, on the New York Stock Exchange. It is expected that these applications will become effective and that trading of the BT Group ADSs and mmO₂ ADSs on the New York Stock Exchange will commence at 9.30 a.m. New York time on 19 November 2001.

No application is being made for either the BT Group Shares or the mmO₂ Shares to be listed in Japan.

The BT Group Shares and the mmO₂ Shares can be held in certificated or uncertificated form. At the Scheme Effective Time, share certificates for the BT Shares will cease to be valid and, with respect to the BT Shares held in uncertificated form, CRESTCo will be instructed to cancel the entitlements of the relevant BT Shareholders with respect to those BT Shares. The last date for registration of transfers of BT Shares is expected to be 16 November 2001.

If you hold BT Shares in certificated form, it is expected that certificates for your BT Group Shares and mmO₂ Shares will be posted to you by 30 November 2001.

Pending the despatch of certificates for BT Group Shares and mmO₂ Shares, transfers of BT Group Shares and mmO₂ Shares in certificated form will be certified against the share registers of BT Group plc and mmO₂ plc as appropriate. Temporary documents

of title have not been and will not be issued in respect of the BT Group Shares or mmO₂ Shares.

If your BT Shares are held in CREST, it is expected that your BT Group Shares and your mmO₂ Shares will be credited to your CREST account on 19 November 2001.

All documents, certificates, cheques or other communications sent by or to shareholders, will be sent at their own risk and may be sent by post.

After the Scheme Effective Time, **BUT NOT BEFORE**, your share certificates for BT Shares will be invalid.

All mandates relating to payment of dividends on BT Shares, all instructions relating to BT's dividend reinvestment plan and all instructions given to BT in relation to notices and other communications in force immediately prior to the Scheme Effective Time will, unless and until revoked or varied, be deemed as from the Scheme Effective Time to be valid and effective mandates or instructions to mmO₂ plc in relation to the corresponding holdings of mmO₂ Shares. Such mandates and instructions will also be deemed as from the Demerger Effective Time to be valid and effective mandates or instructions to BT Group plc in relation to the corresponding holdings of BT Group Shares. This will not extend to communications relating to the receipt of summary financial statements. BT Group plc and mmO₂ plc expect to send notices to their shareholders relating to the receipt of summary financial information shortly after the Scheme and the Demerger have become effective. BT Group plc will adopt a dividend re-investment plan with substantially the same terms as the dividend re-investment plan currently operated by BT. Instructions to mmO₂ plc will operate if and when a dividend re-investment plan is adopted by it.

13. BT EasyShare Service

The Proposals extend to any BT Shares held by Lloyds TSB Registrars Corporate Nominee Limited ("EasyShare") on behalf of participants in the BT EasyShare Service. Following the Demerger, BT Group plc and mmO₂ plc will each operate their own separate service to replace the BT EasyShare Service. The terms of these two new services will not be materially different to the terms of the current BT EasyShare Service. If the Proposals are approved and implemented in full as contemplated, EasyShare will receive, on behalf of each such participant, the same number of shares in each of mmO₂ plc and BT Group plc as the number of BT Shares previously held by EasyShare on behalf of each such participant. EasyShare will hold the mmO₂ Shares and BT Group Shares which it receives on behalf of those participants on the terms of the two new services. BT EasyShare participants will receive separate notifications in respect of the mmO₂ Shares and the BT Group Shares held on their behalf under the two new services.

14. BT Share Schemes

The implications of the Proposals for the BT Share Schemes are summarised below.

(i) The BT Employee Share Ownership Scheme

The Scheme extends to any Ordinary Shares held by the Trustee of the BT Employee Share Ownership Scheme, which is a profit sharing

scheme approved by the Inland Revenue. BT Group Shares and mmO₂ Shares received by the Trustee under the Scheme and the Demerger will continue to be subject to the terms of the BT Employee Share Ownership Scheme. Participants will be notified separately of the impact of the Proposals on their holdings. The same treatment will apply to employee share ownership schemes operated by the Group's Irish subsidiaries in relation to Ordinary Shares.

(ii) BT Option Schemes

Options to acquire Ordinary Shares exist under the BT Option Schemes. All Ordinary Shares issued as a result of the exercise of options prior to the confirmation by the Court of the reduction of capital provided for under the Scheme (the "Scheme Reduction Time") will be subject to the Scheme. The Scheme will not extend to Ordinary Shares issued, including as a result of the exercise of options, after that time.

In view of the impact of the Scheme and the Demerger on each of the BT Option Schemes, the choices described below will be put to Optionholders. These choices will be notified separately to Optionholders in each of the BT Option Schemes.

The BT Employee Sharesave Scheme 1994 and the BT International Employee Sharesave Scheme (the "Sharesave Schemes")

Optionholders under the Sharesave Schemes will be given the opportunity, conditionally on the Scheme being sanctioned by the Court:

- (a) to exercise their options over Ordinary Shares immediately following the time at which the Scheme is sanctioned by the Court but prior to the Scheme Reduction Time, thus enabling them to participate in the Scheme; or
- (b) to exercise their options over Ordinary Shares at any time during the period of six months following the date on which the Scheme is sanctioned by the Court, thus enabling them to continue their monthly savings contributions for a longer period. The rules of the Sharesave Schemes permit options to be exercised within six months following the date on which the Scheme is sanctioned by the Court; options which are not exercised will lapse at the end of the six month period. Under the arrangement described below, Optionholders will be entitled to receive the same consideration (that is, BT Group Shares and mmO₂ Shares) as BT Shareholders participating in the Scheme and, if it proceeds as expected, the Demerger.

As Ordinary Shares could be issued under (b) above after the Scheme Reduction Time, it is proposed to amend the Company's Articles of Association so that any Ordinary Shares issued after that time will be compulsorily acquired by the immediate holding company of BT in consideration of that company procuring the transfer to Optionholders by a special purpose trust established by the Company (the "Special Purpose Trust") of the consideration which would have been received (that is, BT Group Shares and mmO₂ Shares) had those Ordinary Shares participated in the Scheme and, if it proceeds as expected, the Demerger. This amendment will be effected by a special resolution to be proposed at the EGM as described in paragraph 21 of this Part 3. The Special Purpose Trust

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will, shortly before the Scheme Reduction Time, subscribe for the number of Ordinary Shares which is equal to the number of Ordinary Shares which could be issued under (b) above by the end of the six month period (but restricted to options with exercise prices at or below a price to be determined by the Directors before the sanction of the Scheme by the Court).

The Ordinary Shares subscribed by the Special Purpose Trust will participate in the Scheme so that, if the Demerger becomes effective, the Special Purpose Trust will have sufficient BT Group Shares and mmO₂ Shares to satisfy the relevant Optionholders' entitlements. Subject to the approval of the Court at the hearing at which the Scheme is sanctioned, BT will advance sufficient money by way of loan to enable the Special Purpose Trust to acquire these Ordinary Shares for an amount equal to the total aggregate exercise price of the underlying options (except that, where the underlying options have exercise prices in excess of the market value of an Ordinary Share at the date of the subscription, the subscription price per Ordinary Share payable in respect of those options shall be an amount equal to such market value) and to pay stamp duty, stamp duty reserve tax and other costs associated with this arrangement. The amount of the loan will depend on the Directors' estimate of the extent to which employees elect to exercise options under (b) above. Assuming all employees so elect (which the Directors consider unlikely), and assuming, for illustrative purposes only, an average subscription price of 331 pence per share, 70 million Ordinary Shares would be subscribed by the Special Purpose Trust, requiring a loan of approximately £232 million. To the extent that options are exercised within the six month period, the loan would be repaid with amounts paid by the immediate holding company of BT to the Special Purpose Trust in consideration for the transfer by the Special Purpose Trust of the BT Group Shares and mmO₂ Shares to the relevant Optionholders.

Options granted in 1997 under the BT Employee Sharesave Scheme 1994, with an adjusted exercise price of 322.35 pence per Ordinary Share, would normally become exercisable in full in August 2002, if the Scheme did not occur. The latest exercise date under the arrangements described above will be three months earlier than this maturity date, and the rate of interest payable on early closure of the savings contract to finance the option exercise will be less than the effective rate which would have been payable on maturity. The Company intends to pay compensation (grossed-up for basic rate income tax) to holders of these options of an amount equal to the difference between the effective interest which would have been payable on maturity of the savings contracts and the amount of interest which would be paid on an assumed termination three months earlier. The compensation is expected to be paid in June 2002 to the holders of these options who are in service with BT at the Scheme Reduction Time. The cost of this compensation arrangement is anticipated to be approximately £14.8 million. As at 17 September 2001 (the last practicable date before the publication of this document), these options were the only options outstanding under the Sharesave Schemes which were capable of exercise at a profit; this compensation will not be paid in respect of other options under the Sharesave Schemes. No directors of BT, BT Group plc or mmO₂ plc hold options which would entitle them to this compensation.

The BT Share Option Scheme, the BT US Stock Option Plan, the BT Worldwide Share Option Scheme and the BT Global Share Option Plan (the "Executive Option Plans")

Optionholders under the Executive Option Plans will, in accordance with the relevant plan rules, be given the opportunity:

- (a) conditionally on the Scheme being sanctioned by the Court, to release their options over Ordinary Shares in consideration for the grant of options of equivalent value over ordinary shares in their employer's new holding company (BT Group plc or mmO₂ plc, as the case may be) (the "Relevant Parent Company"). The terms of this exchange will ensure that the total amount payable on exercise, and any gain or loss arising had the option been exercised at the time of the exchange, is the same before and after the exchange. The replacement options will be granted under new option plans ("Legacy Option Plans") adopted by BT Group plc and mmO₂ plc solely for the purpose of making these replacement grants over their own shares to Optionholders who become employees in their respective groups and release their options as described above. The rules of the Legacy Option Plans contain provisions mirroring those of each of the Executive Option Plans under which the options over Ordinary Shares were granted. The replacement options will be granted on the same terms, and will be exercisable between the same dates, as the options for which they are exchanged; or
- (b) if their options are already exercisable, to exercise their options over Ordinary Shares irrespective of whether the Scheme is sanctioned by the Court; or
- (c) if their options are not already exercisable (or they do not wish to exercise their options immediately), conditionally on the Scheme being sanctioned by the Court, to exercise their options over Ordinary Shares immediately following the time at which the Scheme is sanctioned by the Court but prior to the Scheme Reduction Time, thus enabling them to participate in the Scheme.

Options will lapse on or before the Scheme Effective Time to the extent that they have not been exchanged or exercised.

Holders of options granted in June 2001 under the BT Global Share Option Plan will, in accordance with the terms on which these options were granted, automatically exchange their options under (a) above. These options will not therefore become exercisable early as a result of the Scheme. These options, which have an exercise price of 420 pence per Ordinary Share, are held by 458 participants over a total of 6,344,590 Ordinary Shares. Sir Christopher Bland (the Chairman of BT) and David Varney (the Chairman of mmO₂ plc) hold options over 238,100 Ordinary Shares and 119,050 Ordinary Shares respectively under this category. These options will be exchanged for replacement options over BT Group Shares (in Sir Christopher Bland's case) and for options over mmO₂ Shares (in David Varney's case). It is not currently possible to state the number of shares and exercise price under the new options, as this will depend on the relevant share prices following the Demerger. With the exception of David Varney, all of the options granted in June 2001 under the BT Global Share Option Plan are held by employees who will be employed by the BT Group.

In the case of options currently held by approximately 195 employees under the BT Share Option Scheme (which has been approved by the Inland Revenue), each of the above alternatives may give rise to an additional income tax charge on any gain at the time that the option is exercised. Normally, the Optionholder would not expect to pay income tax in respect of his approved option. Accordingly, where an option is exercised in circumstances giving rise to an income tax liability which would not have arisen had the Scheme not been implemented, the Relevant Parent Company will pay compensation (up to £10,000 per Optionholder) in respect of those additional tax liabilities. No directors of BT, BT Group plc or mmO₂ plc hold options which would entitle them to this payment.

Under an arrangement introduced when the Company paid a special dividend to shareholders in September 1997, holders of options granted before 15 August 1997 under the Sharesave Schemes and the Executive Option Plans are entitled to a top-up payment following exercise of their options. This is because they were not entitled to the special dividend, and the value of their options was reduced when the special dividend was paid to shareholders. The top-up payment, which is normally paid within six months after exercise of qualifying options, is worth 40.5p (gross) per Ordinary Share acquired on exercise. For options exercised up to 5 September 2001, the payment has normally been satisfied in Ordinary Shares purchased in the market by an employee trust funded by the Company. For options exercised after that date (including where qualifying options are exercised within the time periods described above) the top-up will be paid in cash. Sir Peter Bonfield (chief executive of BT) and Peter Erskine (CEO of mmO₂) exercised qualifying options under the BT Employee Sharesave Scheme 1994 during August 2001, and it is anticipated that their after-tax top-up payment (around £1,750 and £350 respectively) will, following the Demerger, be satisfied in shares on the same terms as other Optionholders exercising at that time. No other directors of BT, BT Group plc or mmO₂ plc hold options which would entitle them to this top-up payment.

(iii) The BT Executive Share Plan, the BT Incentive Share Plan, the BT Retention Share Plan and the BT Deferred Bonus Plan (the “Executive Share Plans”)

Performance-related awards to key individuals are currently outstanding under two share plans — the BT Executive Share Plan (“ESP”) and the BT Incentive Share Plan (“BT ISP”). Under both plans, Ordinary Shares have been acquired by employee share ownership trusts, and participants are generally only entitled to Ordinary Shares at the end of a performance period if the Company has met the relevant predetermined performance measure and participants are still employed by the Group. The performance measure under both plans assesses the Company’s overall performance in terms of total shareholder return (“TSR”) against the top 100 companies listed on the London Stock Exchange, as rated by the *Financial Times* (the FT-SE 100 Index) at the beginning of the relevant performance period. In the case of the BT ISP, if the Company has exceeded the predetermined corporate performance measure, participants may be awarded up to double the shares conditionally awarded.

The ESP, which was operated between 1994 and 1999, has a five year performance period. Awards of Ordinary Shares made in 1997, 1998,

and 1999 have not yet vested and are held by around 110 participants. The BT ISP, which was introduced in 2000, has a three year performance period. Awards of Ordinary Shares made in 2000 and 2001 have not yet vested and are held by around 2,300 participants.

Awards under the ESP and BT ISP will not vest automatically as a result of the Scheme, but may be adjusted for the Scheme and the Demerger. The BT Remuneration Committee has determined that the following arrangements, which are designed neither to advantage or disadvantage participants, should apply to awards if the Scheme and Demerger are implemented:

- (a) **All awards** — Awards will, in all cases, be satisfied in shares in the Relevant Parent Company. Preserved awards held by former employees will be satisfied in BT Group Shares. The satisfaction of all of these awards is unlikely to give rise to further cost or equity dilution for either BT Group plc or mmO₂ plc as they are awards over existing Ordinary Shares held by employee share ownership trusts, and the shares will be adjusted in the manner described in (d) below.
- (b) **Awards which are more than four years into their performance periods** — For these ESP awards, performance will be assessed by reference to BT’s TSR performance between the start of the performance period and the expiry of 20 dealing days following the Demerger (the “Pre-Demerger Period”) (all relevant share prices being averaged over the six month period prior to those dates, and the market value of an Ordinary Share in respect of the period of 20 dealing days following the Demerger being determined by treating the BT Group Shares and mmO₂ Shares arising on the Scheme and Demerger as a notional Ordinary Share). The awards will vest at the normal vesting date (that is, after five years), subject to the plan rules (including a requirement that the participant normally remains in service with BT Group or mmO₂ Group at that date) to the extent to which the performance measure is met in respect of the Pre-Demerger Period. The BT Remuneration Committee considers this approach to be appropriate because at the end of the Pre-Demerger Period, the performance period for these awards, which ends on 31 July 2002, will have only seven months to run. On the basis of the TSR performance of BT and the other comparator companies between 18 June 2001 (the start of the six month averaging period, assuming the last date on which BT Shares are traded on the London Stock Exchange is 16 November 2001) and 31 August 2001 (the last practicable date before the publication of this document, for these purposes), 47.5 per cent. of the shares under these awards would vest at their normal vesting date.
- (c) **Awards which are less than four years into their performance periods** — For these awards, the performance measure relating to TSR will continue to apply until the end of the original performance period, and awards will vest at the normal date, subject to satisfaction of the performance measure and other provisions in the rules (including a requirement that the participant normally remains in service with BT Group or mmO₂ Group at that date). Performance will be assessed by reference to BT’s TSR performance in respect of the

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Pre-Demerger Period and by reference to the Relevant Parent Company's TSR performance in respect of the remainder of the performance period. For these purposes, appropriate adjustments will be made (based on average share prices for the 20 dealing days following Demerger, and the market value of an Ordinary Share in respect of that period being determined by treating each BT Group Share and mmO₂ Share arising on the Scheme and Demerger as a notional Ordinary Share) to ensure that the Relevant Parent Company commences on Admission with the same TSR ranking as that attained by BT in respect of the Pre-Demerger Period.

- (d) **Adjusting awards so that they relate to the Relevant Parent Company's shares** — All awards currently relate to Ordinary Shares, and employee share ownership trusts hold sufficient Ordinary Shares to satisfy awards if performance measures are met in full. As a BT Shareholder, the Trustee of these trusts will participate in the Scheme and Demerger, creating separate pools of BT Group Shares and mmO₂ Shares within each trust. On the recommendation of the BT Remuneration Committee, the Trustee of each trust will, following the Demerger, adjust its holdings of BT Group Shares and mmO₂ Shares to ensure that it is able to satisfy awards relating to each company's shares. The terms of individual awards will be adjusted in a similar manner so that they relate solely to the shares of the Relevant Parent Company.

Existing awards under the BT Deferred Bonus Plan, which was introduced in 1998, and the BT Retention Share Plan, which was introduced in 2000, are not performance-related. The vesting of shares under these plans generally depends on the participant remaining in BT's employment for a predetermined period. Awards under these plans will not vest automatically as a result of the Scheme. The BT Remuneration Committee has determined that awards under these plans should continue until their normal maturity date, and should then be satisfied in the Relevant Parent Company's shares. The Remuneration Committee has determined that each award should be adjusted in the manner described in (d) above to ensure that, following the Scheme and Demerger, the award relates solely to the Relevant Parent Company's shares.

It is possible that the Scheme could become effective but the Demerger would not (thus creating a new holding company for BT, but not separating the mmO₂ business from the rest of the Group). In this event, provisions in the rules of the BT Share Schemes would apply to ensure that, to the extent possible, existing options under the Executive Option Plans and existing awards under the Executive Share Plans were exchanged for equivalent rights over the new holding company's shares.

(iv) The BT Employee Stock Purchase Plan

The Scheme extends to BT ADSs acquired by participants under the BT Employee Stock Purchase Plan, which is a plan for employees of BT's US subsidiaries enabling them to purchase BT ADSs at regular intervals at a discount to the average trading price of the ADSs. Participants will be notified separately of the impact of the Proposals on their holdings.

(v) General

Following the Scheme and the Demerger no further options or share awards will be granted under the BT Share Schemes.

15. Overseas Shareholders

The implications of the Proposals for Overseas Shareholders may be affected by the laws of the relevant jurisdictions. Overseas Shareholders should inform themselves about and observe any applicable legal requirements. It is the responsibility of each Overseas Shareholder to satisfy himself or herself as to the full observance of the laws of the relevant jurisdiction in connection with the Proposals, including the obtaining of any governmental, exchange control or other consents which may be required and/or the compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes due in such jurisdiction.

In any case where mmO₂ plc and/or BT Group plc is advised that the allotment and issue of mmO₂ Shares and/or BT Group Shares (as the case may be) to a BT Shareholder (or mmO₂ Shareholder, as the case may be) with a registered address in a jurisdiction outside the United Kingdom or whom mmO₂ plc and/or BT Group plc, as the case may be, reasonably believes to be a citizen, resident or national of a jurisdiction outside the United Kingdom would or may infringe the laws of such jurisdiction, or would or may require mmO₂ plc and/or BT Group plc to comply with any governmental or other consent or any registration, filing or other formality with which mmO₂ plc and/or BT Group plc is unable to comply or compliance with which mmO₂ plc and/or BT Group plc regards as unduly onerous, then mmO₂ plc and/or BT Group plc may determine either (i) that the holder's entitlement to mmO₂ Shares and/or BT Group Shares shall be issued to a nominee for such holder appointed by mmO₂ plc and/or BT Group plc and then sold, with the net proceeds of sale being remitted to the holder concerned; or (ii) that the holder's entitlement to mmO₂ Shares and/or BT Group Shares pursuant to the Proposals shall be issued to such holder and then sold on his behalf as soon as reasonably practical at the best price which can be reasonably obtained at the time of sale, with the net proceeds of sale being remitted to the holder concerned.

This document has been prepared to comply with English law and the rules of the UK Listing Authority and the information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of jurisdictions outside the United Kingdom.

Australia

This document has not been, and will not be, lodged with the Australian Securities and Investments Commission as a disclosure document for the purpose of Australia's Corporations Act 2001 (Cwlth).

Shares in mmO₂ plc issued as a result of the Scheme and shares in BT Group plc issued as a result of the Demerger may not be offered for sale in Australia for at least 12 months after their issue, except in circumstances where disclosure to investors is not required under Chapter 6D of the Corporations Act 2001 or unless a compliant

disclosure document is produced. Disclosure to investors would not generally be required under Chapter 6D where:

- (i) the shares are offered for sale on the London Stock Exchange;
- (ii) the shares are offered for sale to the categories of “professional investors” described in section 708(11) of the Corporations Act; or
- (iii) the shares are offered for sale to persons who are “sophisticated investors” and meet the criteria set out in sections 708(8) or 708(10) of the Corporations Act.

However, Chapter 6D of the Corporations Act is complex and, if in any doubt, you should confer with your professional advisers regarding the position.

The information in this document is not suitable to be acted upon as investment advice. You should consider seeking personal investment advice from a suitably qualified person before making any investment decisions relying on the information contained in this document.

Canada

The issue of the BT Group Shares, BT Group ADSs, mmO₂ Shares and mmO₂ ADSs in Quebec is subject to the approval of the Quebec Securities Commission. The issue of the BT Group Shares and BT Group ADSs in British Columbia, Saskatchewan, Manitoba, Ontario, Nova Scotia and Newfoundland is subject to BT obtaining exemptive relief from the appropriate securities commission. Exemptive relief is being sought but no assurance can be given that this relief will be forthcoming. Neither BT Group plc nor mmO₂ plc is a reporting issuer in Canada. Accordingly, in certain provinces or territories of Canada, persons who receive mmO₂ Shares, mmO₂ ADSs, BT Group Shares and BT Group ADSs pursuant to the Scheme and the Demerger may be restricted from disposing of such BT Group Shares, BT Group ADSs, mmO₂ Shares and mmO₂ ADSs, as the case may be, in the absence of regulatory relief. Subject to compliance with certain conditions, exemptions from the restrictions on resale of the mmO₂ Shares and mmO₂ ADSs, are available in British Columbia, Alberta, Manitoba, Saskatchewan, Ontario and New Brunswick. Discretionary rulings will be sought from the securities regulatory authorities in Quebec, Newfoundland and Nova Scotia to permit the resale of mmO₂ Shares and mmO₂ ADSs by holders in each such province provided that, among other things, trades are made through the facilities of a stock exchange or other organised exchange facility outside Canada on which mmO₂ Shares and mmO₂ ADSs are listed or may be traded, in accordance with all rules and laws applicable to such stock exchange or other exchange facility and provided that the resale is made through a registered dealer in the relevant province. No assurance can be given that this relief will be forthcoming. Subject to compliance with certain conditions, exemptions from the restrictions on resale of the BT Group Shares and BT Group ADSs are available in British Columbia, Alberta, Manitoba, Ontario and New Brunswick. Discretionary rulings will also be sought in Saskatchewan, Quebec, Newfoundland and Nova Scotia to permit the resale of BT Group Shares and BT Group ADSs by holders in each such province provided that, among other things, trades are made through the facilities of a stock exchange or other organised exchange facility

outside Canada on which BT Group Shares and BT Group ADSs are listed or may be traded, in accordance with all rules and laws applicable to such stock exchange or other exchange facility and provided that the resale is made through a registered dealer in the relevant province. No assurance can be given that this relief will be forthcoming. BT Shareholders and holders of BT ADSs should consult their own professional advisers on such matters.

All of the directors and officers of each of BT Group plc and mmO₂ plc may be located outside Canada and, as a result, it may not be possible for Canadian holders of BT Shares to effect service of process within Canada upon each of BT Group plc and mmO₂ plc or such persons. All or a substantial portion of the assets of BT Group plc and mmO₂ plc may be located outside Canada and, as a result, it may not be possible to satisfy a judgment against either BT Group plc or mmO₂ plc or such persons in Canada or to enforce a judgment obtained in Canadian courts against either BT Group plc or mmO₂ plc or persons outside Canada.

Canadian shareholders should be aware that the implementation of the Proposals might lead to significant adverse tax consequences for them and they are encouraged to consult with their own tax advisers.

New Zealand

The issue of BT Group Shares and mmO₂ Shares may be an offer under New Zealand securities laws and, therefore, New Zealand holders of BT Shares should note that:

- (i) the offer and issue of BT Group Shares and mmO₂ Shares is made in accordance with the laws of the United Kingdom;
- (ii) none of BT, BT Group plc or mmO₂ plc may be subject to New Zealand law, and as a consequence, contracts in respect of BT Group Shares and mmO₂ Shares may not be enforceable in New Zealand courts; and
- (iii) this document is not a prospectus registered under New Zealand law and may not contain all the information that a New Zealand registered prospectus is required to contain.

France

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

16. Holders of BT ADSs and US Holders

Holders of BT ADSs and US Holders should refer to Part 8 of this document which contains further important information relevant to such holders.

17. Exemption from registration under the Securities Act and registration under the Securities Exchange Act

The Scheme

The mmO₂ Shares and the mmO₂ ADSs will not be registered, and are not required to be registered, under the Securities Act, in reliance upon the exemption from the registration requirements of the Securities Act provided by Section 3(a)(10) of the Act. The mmO₂

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Shares will be registered under the Securities Exchange Act. See paragraphs 5 and 6 of Part 8 for further information.

The Demerger

US Holders of BT Shares and holders of BT ADSs are advised that registration under the Securities Act of the BT Group Shares and BT Group ADSs to be distributed pursuant to the Demerger is not required. BT Group Shares will be registered under the Securities Exchange Act. See paragraphs 5 and 6 of Part 8 for further information.

18. PEPs and ISAs

BT Shareholders who hold BT Shares in general or single company PEPs or ISAs are advised that BT Group Shares and mmO₂ Shares will be qualifying investments for both PEPs and for the stocks and shares components of ISAs. Therefore, BT Shareholders who hold BT Shares in PEPs will, subject to the terms and conditions of the PEP, be able to hold mmO₂ Shares and BT Group Shares which they receive pursuant to the Scheme and the Demerger in that PEP. Shareholders who hold BT Shares in ISAs will, subject to the terms and conditions of the ISA, be able to hold such BT Group Shares and mmO₂ Shares in that ISA.

BT Shareholders who do not currently hold their BT Shares in either a PEP or an ISA are advised that BT Group Shares and mmO₂ Shares which they receive will be eligible for inclusion in the stocks and shares component of an ISA.

19. Position of trustees

The position of trustees, of trusts governed by English law, in relation to demergers similar to the type to be proposed at the EGM was considered by the High Court in the case of *Sinclair v. Lee*. The case was brought by the trustees of a life interest trust governed by English law of which the only asset was a holding of Imperial Chemical Industries Plc ordinary shares. Judgment in that case was delivered in April 1993 by the Vice-Chancellor, who held that the Zeneca Group PLC shares, which the trustees were to receive pursuant to the demerger of Zeneca Group PLC from Imperial Chemical Industries Plc, would be held by the trustees as capital of the trust. The Company has been advised that this treatment is likely to apply to the BT Group Shares received under the Demerger.

The judgment has implications for BT Shareholders who are trustees (whether or not their trust is a life interest trust) because, depending on the terms of the trust documentation, trust capital and income may be held or applicable for different beneficiaries. BT Shareholders who are trustees are therefore recommended to consult their own legal adviser immediately. The attention of BT Shareholders who are trustees is also drawn to the paragraph "Position of Trustees" in paragraph 1 of Section D of Part 7 of this document as regards certain UK taxation implications of this judgment.

20. BT Shareholder meetings

The Scheme requires the approval of BT Shareholders at the Court Meeting and, for its implementation, at the Extraordinary General Meeting. The Scheme also requires the sanction of the Court. The Demerger requires the approval of BT Shareholders at the Extraordinary General Meeting.

The directors of BT Group plc are authorised to implement the BT Group Reduction of Capital only if BT Shareholders pass the special resolution which will be proposed at the EGM to approve the same (details of which are set out in the notice of EGM at the end of this document). Accordingly, BT Shareholders will not be required separately to approve the BT Group Reduction of Capital once they have become shareholders of BT Group plc pursuant to the Demerger.

Notices of the Court Meeting and the Extraordinary General Meeting are set out on pages 94 to 96 of this document.

Court Meeting

The Court Meeting, which is held at the direction of the Court, has been convened for 10.30 a.m. on 23 October 2001 to enable BT Shareholders to consider the Scheme. At the Court Meeting, voting will be by poll and not by a show of hands. A poll means that each BT Shareholder present (or his or her proxy) who is entitled to be present and to vote has one vote for every share which he or she holds or represents. The Scheme must be approved at the Court Meeting by a majority in number representing three-quarters in nominal value of the BT Shares held by those present and voting, in person or by proxy.

In order that the Court can be satisfied that the votes cast constitute a fair representation of the views of BT Shareholders, it is important that as many votes as possible are cast at the Court Meeting. Voting information is set out in Part 2 of this document.

Extraordinary General Meeting

The Extraordinary General Meeting is being convened to ask BT Shareholders to consider resolutions to give effect to the Proposals and certain other matters. BT Shareholders will be asked to consider and vote on the resolutions set out in the notice convening the meeting on pages 95 to 96 of this document.

The resolutions provide for:

- (a) implementation of the Scheme, including the cancellation of BT Shares and the subsequent issue of new Ordinary Shares to mmO₂ plc and/or its nominees in accordance with the Scheme (Resolution 1a);
- (b) amendment of the BT Articles as set out below (Resolution 1b);
- (c) approval of the BT Group Reduction of Capital (Resolution 2);
- (d) approval of the Demerger (Resolution 3); and
- (e) approval of the mmO₂ Share Plans (Resolutions 4 and 5).

The majority required for the passing of the resolutions is not less than three-quarters of the votes cast in the case of resolutions 1 and 2, as set out in the Notice of Extraordinary General Meeting at the end of this document, and a simple majority in the case of resolutions 3, 4 and 5.

Entitlement to attend and vote at the Court Meeting and the Extraordinary General Meeting and the number of votes which may be cast at those meetings will be determined by reference to the register of members of BT at the Voting Record Time.

21. Amendments to the BT Articles

It is proposed, as part of the First Special Resolution to be proposed at the EGM, to amend the BT Articles to ensure that any BT Shares issued under the BT Share Schemes or otherwise between the passing of the First Special Resolution and the confirmation by the Court of the reduction of capital provided for under the Scheme will be subject to the Scheme. It is also proposed to amend the BT Articles so that, subject to the Scheme becoming effective, any Ordinary Shares issued to any person other than a member of the mmO₂ plc Group or its nominee after the Scheme Effective Time will be compulsorily transferred to the immediate parent company of BT in exchange for the consideration which would have been received had the holders of those Ordinary Shares participated in the Scheme and, if it proceeds as expected, the Demerger. This will prevent any person (other than a member of the mmO₂ plc Group or its nominee or BT Group Investments) being left with Ordinary Shares at any time after the Scheme becomes effective. The First Special Resolution set out in the notice of EGM on pages 95 to 96 of this document seeks the approval of BT Shareholders for this amendment.

It is also proposed to amend article 97 of the BT Articles so that mmO₂ plc and BT Group Investments will be “Permitted Persons” for the purposes of that article. Article 97 prevents a person, except for a “Permitted Person”, directly or indirectly owning or controlling 15 per cent. or more of the votes which could be cast on a poll at a General Meeting of BT. The First Special Resolution set out in the notice of EGM on pages 95 to 96 of this document seeks the approval of BT Shareholders for this amendment.

22. Directors

The interests of the Directors in the share capital of the Company are set out in paragraph 4 of Section A of Part 7.

Directors who hold share awards under the BT Executive Share Plan, the BT Incentive Share Plan, the BT Retention Share Plan and the BT Deferred Bonus Plan, or who hold options under the BT Employee Sharesave Scheme 1994, will be treated in the same manner as other participants in those plans (as described in paragraph 14 of this Part 3). No Directors hold options under other BT Share Option Schemes, other than Sir Christopher Bland whose option under the BT Global Share Option Plan will be treated in the manner described in paragraph 14 of this Part 3.

The Directors are affiliates for the purposes of the Securities Act and are therefore subject to the restrictions described in paragraph 6 of Part 8.

The BT Group directors will comprise the current directors of BT as listed on page 9, other than Dr Iain Anderson who is retiring from the board of BT on 30 September 2001.

Details of the service contracts (including termination provisions) of the Directors and the effect of the Proposals on these contracts are set out in Part 7 of this document. Save as disclosed in paragraph 4 of Section B of Part 7, the emoluments receivable by the Directors will not be varied as a consequence of the Proposals.

During the period of time between the Scheme becoming fully effective and the expected completion of the Demerger, mmO₂ plc will be the holding company of the BT Group as well as the mmO₂ Group

for a short period. As a result, Sir Christopher Bland, Sir Peter Bonfield and Philip Hampton will join the board of mmO₂ plc upon the Scheme becoming fully effective, and at that time the directors of mmO₂ plc, other than David Varney and Peter Erskine, will resign. When and if the Demerger becomes effective, Messrs Bland, Bonfield and Hampton will retire from the board of mmO₂ plc and the original directors will be re-appointed.

Save as described above and in paragraph 4 of Section B of Part 7, the effect of the Proposals on the interests of the Directors does not differ from their effect on the like interests of other persons.

23. Tax confirmations

The Inland Revenue has granted clearances (which remain subject to confirmation) in respect of the Scheme and the Demerger under section 215 Income and Corporation Taxes Act 1988 (“ICTA”), under section 707 ICTA and under section 138 and section 139 Taxation of Chargeable Gains Act 1992.

24. Action to be taken

Part 2 of this document provides important voting information.

The Proposals are subject to the approval of BT Shareholders and it is important that you use your votes at each of the Court Meeting and the Extraordinary General Meeting. Once you have returned your Forms of Proxy, or appointed a proxy by telephone or using the internet as detailed in Part 2 of this document, you need take no further action in relation to the Proposals.

25. Further information

The Scheme is set out in full in Part 9 of this document. Your attention is also drawn to the additional information set out in the following sections of this document, which form part of this explanatory statement: Parts 1, 2 and 4 to 8. The mmO₂ Summary Particulars in relation to the mmO₂ Shares are enclosed with this document. In addition, the mmO₂ Listing Particulars have been lodged with the Registrar of Companies in England and Wales and are available, free of charge, from BT’s registered office and BT’s website (www.bt.com) and are available for inspection only (during normal business hours) at the Document Viewing Facility at the Financial Services Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS. BT Group plc has also prepared listing particulars in relation to the BT Group Shares and has lodged them with the Registrar of Companies in England and Wales. Copies of these are not being sent to shareholders but are available, free of charge, from BT’s registered office and BT’s website (www.bt.com) and are available for inspection only (during normal business hours) at the Document Viewing Facility at the Financial Services Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS. Copies of the memoranda and articles of association of BT, BT Group plc and mmO₂ plc can be inspected at BT’s registered office at 81 Newgate Street, London EC1A 7AJ and at the offices of Linklaters at One Silk Street, London EC2Y 8HQ during usual business hours from the date this document is published to the date of the meetings, 23 October 2001. Copies of the memorandum and articles of association of mmO₂ plc can also be inspected at the offices of Freshfields Bruckhaus Deringer at 65 Fleet Street, London EC4Y 1HS

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during usual business hours from 24 September 2001 until 23 October 2001.

Copies of the memoranda and articles of association of BT Group plc and mmO₂ plc will also be available on the day of the meetings in Hall 5 at the National Exhibition Centre, Birmingham B40 1PP, where the meetings are being held.

Yours faithfully

Cazenove & Co. Ltd

Part 4:
Information on BT Group

Part 4: Information on BT Group

Strategy

BT Group plc

BT Group plc will be the holding company for a balanced portfolio of businesses focused on the provision of voice and data services in the UK and elsewhere in Europe. Its aim will be to create value based on service excellence, its brand leadership, its large-scale networks and its existing customer base. It will also develop and market new higher value broadband and internet products and services. The BT Group will comprise principally four separately managed lines of business, BT Retail, BTopenworld, BT Wholesale and BT Ignite, together with its Concert joint venture. BT Retail and BT Wholesale are well established, cash generative businesses with market-leading positions in the UK, while BT Ignite and BTopenworld are rapidly developing businesses, active in the markets for internet and data services, solutions and broadband.

The proposed organisation of the BT Group reflects the process of structural change upon which BT embarked in 2000. The Group has moved away from a geographically-based organisational structure to one based around separate lines of business. It has been creating commercial boundaries and establishing separate balance sheets for each of the lines of business. BT Group's goal will be to improve operational focus and management accountability of the individual operations, thereby enhancing transparency and the ability of the BT Group to serve the needs of its customers more effectively.

Building on the establishment of separate business units, the Directors are currently considering whether to seek the grant of separate telecommunications licences for certain operations. Any review may or may not lead towards further separation of these businesses from each other. In the current market climate, the Board remains confident, for the time being, that value can be generated for shareholders without the full or partial listing of any line of business.

In the opinion of the Directors, BT's relationship with its customer base represents a major strength and it is the Directors' intention to broaden the range of services offered by the BT Group in order to reinforce this relationship. For example, BT Group plc intends to build upon BT's reputation in various parts of the communications market by expanding into areas of higher value broadband and internet services and products. In particular, BT Group plc will continue to identify and evaluate new areas, both geographic and product, where the current burden of regulation is less severe.

BT Group plc will have a significant concentration of revenue and profit within the UK communications market. It is the longer term aim of the directors of BT Group plc to increase the proportion of revenue from operations outside the UK. It is intended that this will be achieved through focused investment in support of BT's global customers, primarily in Europe, via BT's high quality solutions sales and support operations.

Currently, Concert provides international connectivity for BT's wider operations, as well as managing the sale of services to large multinational customers. BT and AT&T, the joint owners of Concert, are currently in discussions concerning the future of the Concert joint venture. Further details can be found under "Discussions with AT&T regarding Concert" in this Part 4.

Through a focus on projects offering higher and more immediate financial returns, BT Group plc's aim is to reduce capital expenditure from approximately £3.9 billion in the year ended 31 March 2001 to £3.4 billion in the year ending 31 March 2002 with medium-term capital expenditure expectations of approximately £3.5 billion per annum. Furthermore, productivity improvements and cost savings will be sought and initiatives to reduce costs totalling approximately £575 million have been identified for the year ending 31 March 2002. The Board now expects to reduce net debt to between £15 billion and £17 billion for the BT Group at 31 March 2002, on the assumption that BT's property sale and leaseback transaction, which is expected to raise approximately £2.3 billion, has been completed.

Continuing relationship between BT Group plc and mmO₂ plc

Immediately following the Demerger neither BT Group plc nor mmO₂ plc will have any shareholding in the other and the BT Group and the mmO₂ Group will operate as separate businesses.

BT Group plc and mmO₂ plc will deal with each other on an arm's length basis. The UK business relationship will initially be governed under the aegis of a framework agreement.

An anticipated result of the Demerger is an increase in freedom for both BT Group plc and mmO₂ plc to devise and employ strategies to generate additional benefit to customers and to shareholders. BT has agreed that until 31 March 2003, it will not offer mobile products and services to the consumer market in the UK solely under the BT brand. It may, however, offer mobile products and services under the BT brand if co-branded with the brands of other mobile network operators, and may offer fixed and mobile bundled products under the BT brand. Furthermore BT and BT Cellnet have agreed that, for a period of three years from the Demerger, BT will exclusively promote the mobile products and services of BT Cellnet to the business market in the UK. The BT Group has no current intention of obtaining licences to enter the UMTS or GSM wireless markets in the territories in which mmO₂ currently holds UMTS or GSM Licences.

BT has entered into an agreement that provides for certain members of the mmO₂ Group, following the Demerger, to use certain trademarks and brands owned by the BT Group on a transitional basis including, for example, the BT name and the half piper logo, to the extent that they use the name and logo immediately before the Demerger (except in respect of fixed line telephony goods and services and all other hardware and telecommunications equipment, and certain internet related services).

The effects of the Demerger and the agreements governing the continuing relationship between BT Group plc and mmO₂ plc, and the separation of their businesses, assets and liabilities including guarantees are described in further detail in paragraph 5 of Section D of Part 7.

Activities and strategies of the BT Group's businesses

BT Group will principally comprise BT Retail, BTopenworld, BT Wholesale and BT Ignite, together with BTextact Technologies, BT Affinitis and the Company's Concert joint venture.

BT Retail

BT Retail is the UK's largest communications service provider, by market share, to the residential and business markets. It is the prime channel to market for the other businesses in the BT Group and it trades under the BT label, one of the UK's leading brands. It has an extensive product and service portfolio covering voice, data, internet and multimedia and offers managed and packaged communications solutions.

BT Retail's key strengths are its distribution and service capabilities and its extensive customer base and customer relationships. It has introduced new products (such as the digital office) and innovative pricing policies (such as BT Together). It will continue to deliver digital solutions supported by BTopenworld and wireless solutions supported by BT Cellnet, part of the mmO₂ Group.

As at 30 June 2001, BT Retail had 28.2 million customer lines (exchange line connections) equating to a UK market share of approximately 83 per cent. Some nine million of these were business lines and lines for other service providers. The remainder of the lines were for residential customers.

On average, about 100 million UK local and national calls are made every day from BT lines. The number of calls made from fixed to mobile phones continues to grow strongly, but this growth is largely offset by a decline in traditional fixed-line local, national and international call volumes caused by mobile phone substitution and intense competition from other UK operators.

The Directors estimate, based on internal information, that in the residential fixed-call market, BT Retail's share of fixed-voice call minutes over the last three quarters has remained stable at 73 per cent., having fallen from 79 per cent. in mid-1999 to 74 per cent. by mid-2000.

BT Retail's growing competitiveness has been endorsed by independent consultants. Deloitte & Touche's report in July 2001 showed that, based on tariffs current at 1 June 2001, BT Retail's prices were up to 26 per cent. cheaper than its cable competitors, when comparing whole bills.

National Opinion Poll figures show BT Retail to be a leading supplier for internet service provision and web hosting for businesses of between five and 500 employees. Customers are being connected at a rate of 1,000 a week. In the major business sector, BT Retail is working with BT Ignite and companies such as Nortel Networks Ltd, Cisco Systems Inc and BroadVision Inc to help large organisations to develop effective multi-media communication with their customers. Overall, more than a third of BT Retail's major business revenues, for the year to 31 March 2001, came from new-wave products and services, such as internet, wireless and packaged IT solutions and these are growing significantly year-on-year.

In a very competitive market, BT Retail's financial strategy is to maintain turnover and EBITDA margins in the medium term at 2001 levels by seeking ongoing productivity improvements, by defending and growing revenues in existing businesses, by growing the profitable distribution of products managed throughout the Group or by external partners and by developing new business opportunities in adjacent markets.

BTopenworld

BTopenworld brings together in a single business all of BT's mass-market ISPs and internet related activities. It serves consumers and SMEs in the UK, with a range of narrowband and broadband internet access and related services.

BTopenworld aims to generate additional revenues for the Group by providing customers with services that add value to the basic telephony service, earning subscription and advertising and e-commerce revenues. Internet services also benefit the Group indirectly through stimulating additional network usage.

BTopenworld's aim is to inspire its customers to explore the internet as a whole, rather than to try to keep customers confined within a "walled garden" of content. BTopenworld's strategy, therefore, is to emphasise access services and revenues and to build a home page that gives customers the tools they need to explore the internet, rather than to seek to provide content that is readily available on many other sites.

BTopenworld has become one of the UK's leading internet service providers with approximately 1.45 million active customers. This total includes over 800,000 unmetered customers (paying monthly rather than per minute fees for service) making BTopenworld one of the leaders in this sector. BTopenworld is the UK's leading retailer of DSL broadband services with over 40,000 customers. In addition, BTopenworld provides a number of companies (including, ITV Digital and Dell) with a wholesale internet access service which they market to their customers.

BT Wholesale

BT Wholesale provides network services and solutions within the UK to communications companies, network operators and service providers. BT Wholesale has the largest capacity network in the UK with the greatest geographic reach and customer coverage.

The majority of BT Wholesale's revenues are generated from sales within the BT Group, and together, BT Retail and BT Ignite currently account for some 67 per cent. of BT Wholesale's total turnover. Just over half of its external turnover is subject to regulatory controls. BT Wholesale aims to reduce its dependence on its regulated business and grow its sales to other communication companies. Many other telecommunications operators use the BT Wholesale network to help deliver their customers' calls. This interconnect activity has increased rapidly as competition in the fixed and mobile sector has intensified and BT Wholesale intends to extend these existing relationships.

BT Wholesale's strategy is to provide total customer solutions, broaden its customer base, build and develop relationships with other parts of the BT Group, other network operators and major communications suppliers, and establish a reputation for outstanding service delivery. Its investment strategy will satisfy demand for bandwidth and apply new technology to boost capacity, provide the platform for next generation products and services and reduce costs. BT Group believes this should mitigate erosion of market share and generate attractive returns on capital.

Part 4: Information on BT Group

In the year to 31 March 2001, the business incurred capital expenditure of approximately £2.3 billion and anticipates that its future capital expenditure will be in the region of £2 billion per annum over the medium-term. BT Group plans through tight controls on operating costs and capital expenditure to ensure that the current level of free cashflow generated by BT Wholesale is maintained over the medium-term. It is aiming to grow external turnover by over 20 per cent. per annum in the short to medium-term.

BT Ignite

BT Ignite, BT's international, datacentric solutions and broadband IP business, delivers a range of services, including customer solutions, application service packages, web hosting, media services and data transport. In particular, BT Ignite's internet data centres provide the hardware and high-speed communications connections required by customers to run their websites and their online business applications, allowing these customers to focus on their core business and meet growing requirements for e-commerce.

BT Ignite has established a strong European footprint, serving business customers with 52,000 route kilometres of fibre connecting 250 cities and with 22 content hosting centres. Across Europe, BT Ignite controls its own infrastructure, but is primarily a service and marketing business using its own sales and service team of approximately 2,000 employees, in addition to over 10,000 people employed in network and IT solutions operations, across the world. It sells direct to businesses in Europe and sells to businesses in the UK through BT Retail's sales force.

Building on its position as a leading business in the European services market, as measured by customer and revenue base, BT Ignite plans to continue to build its revenues from the high end of the value chain. Valued-added services, complex business solutions, hosting and media distribution currently represent over 60 per cent. of BT Ignite's turnover.

BT Ignite aims to use its direct and indirect channels to add more business customers and increase revenue per customer by selling more of these higher value products and migrating customers towards tailored services, such as moving customers through hosting and applications to solutions. Its strategy for moving into profitability also includes increasing the throughput in its existing network infrastructure of cables and data hosting to benefit from operational gearing.

Functional responsibilities have been established across the BT Ignite business, including single network management and single product management, from which BT Ignite expects to generate synergies.

EBITDA is targeted to approach 15 to 20 per cent. of turnover over the medium-term and capital expenditure is targeted to be approximately £1 billion per annum, compared to £0.9 billion for the year ended 31 March 2001. Growth in turnover is targeted in excess of 15 per cent. per annum in the medium-term.

Concert

Concert is the global communications joint venture owned equally by BT and AT&T. It combines what were the trans-border assets and

operations of BT and AT&T, including their international networks, all their international traffic and their international products for business customers. Concert's results have been impacted by market pricing pressures and an increase in industry capacity, while network costs have remained fairly constant. Concert has also been impacted by weakness in sales from its non-parent global distributors and its wholesale operation. Management actions to seek to improve the financial position include reductions in headcount, capital expenditure cuts and aggressive performance improvement plans.

Discussions with AT&T regarding Concert

The discussions between AT&T and BT concerning the future of the Concert joint venture are continuing. Options involving the sale, or other business combination, of BT's business services operations with AT&T's business services unit are no longer being considered at this time. Other strategic alternatives to Concert are still being discussed, including continuation of the venture in a modified form. Options currently being considered include unwinding the Concert joint venture and there are a number of ways in which this might be accomplished. In any such unwinding, Concert's business would be divided between AT&T and BT and be subsumed into their businesses. Continuity of supply and continued support of the Group's existing and future customers' global communications needs and retention of the skills of key personnel are key objectives in all of the options under discussion.

In the event that an unwinding of the Concert joint venture is agreed, and depending on the way that it is implemented, the financial effects on the Group are likely to include cash and non-cash restructuring costs which could be substantial. Furthermore, Concert's future operating losses would be divided between AT&T and BT in accordance with any agreement to unwind the joint venture. In such an event, the Board expects to take steps to reduce such losses. The financial effects of any agreement cannot be quantified until an agreement has been reached. The value of Concert in the Group's balance sheet as at 30 June 2001 was £1,349 million.

There can be no assurances that agreement will be reached with AT&T regarding any of the alternatives under consideration. In the absence of any such agreement, the joint venture will continue in existence.

AT&T Canada

The Group's carrying value of its effective nine per cent. interest in AT&T Canada stood at £350 million at 30 June 2001. BT considers that this investment has been impaired and it expects to take a charge against the investment in its results to 30 September 2001 representing a substantial part of its carrying value.

BT's agreement with AT&T provides for BT to contribute to AT&T's obligation to purchase up to 100 per cent. of AT&T Canada, up to a maximum cost for BT of Canadian \$1.65 billion. This would result in BT Group having a stake of up to 30 per cent. in AT&T Canada. Under the existing agreements, an unwinding of the Concert joint venture would afford BT Group the right to sell its current effective nine per cent. interest in AT&T Canada to AT&T, under a put option, and BT Group would no longer be obliged to

provide further funding. AT&T has not agreed to an unwind of Concert giving rise to such provisions and there can be no assurance that any such agreement will be reached.

BTextact Technologies

BTextact Technologies is an internationally-renowned engineering and technology research and development business.

BT Affinitis

BT Affinitis provides and manages the following business infrastructure services for BT Group: property, facilities, computing, fleet, procurement and logistics.

On 9 May 2001, BT selected Telereal Group Limited (“Telereal”) as preferred bidder for the acquisition of a substantial part of BT’s property portfolio and the subsequent provision of accommodation services back to BT. On 12 June 2001, BT and Telereal entered into a legal agreement for the acquisition and subsequent service provision subject to conditions precedent, being primarily conditions relating to satisfactory funding and the finalisation of transactional commercial documentation. Detailed commercial and legal negotiations continue.

Telereal Group Limited is a 50:50 joint venture between Land Securities Trillium Limited (a wholly owned subsidiary of Land Securities plc) and William Pears Family Holdings Limited.

BT expects to complete the sale of the property portfolio by 31 December 2001. The transaction, on completion, is expected to raise approximately £2.3 billion.

Other businesses

BT Group also holds stakes in certain other companies, including a 26 per cent. stake in Cegetel, a leading French telecommunications company.

Part 5:
Financial information on mmO₂

1. Basis of preparation

The consolidated accounts of BT for the three years ended 31 March 1999, 2000 and 2001 have been audited by PricewaterhouseCoopers, Chartered Accountants and Registered Auditors, whose address is 1 Embankment Place, London WC2N 6RH and filed with the Registrar of Companies. Their reports on these accounts were unqualified and did not include statements under section 237(2) or (3) of the Companies Act.

The financial information below has been extracted, without material adjustment, from the group returns used to prepare the consolidated accounts of BT for the years ending 31 March 1999, 2000 and 2001.

The financial information in this Part 5 does not constitute statutory accounts within the meaning of section 240 of the Companies Act. The financial information has been prepared in accordance with UK GAAP and BT's accounting policies. Information on the pro forma profit and loss account and balance sheet of BT Group plc is shown in Part 6.

2. Combined profit and loss accounts of mmO₂ for the three years ended 31 March 2001

	Year ended 31 March		
	1999 £m	2000 £m	2001 £m
Group turnover	1,822	2,636	3,399
Operating costs	(1,649)	(2,625)	(6,527)
Group operating profit (loss)	173	11	(3,128)
Group's share of operating losses of associates and joint ventures	(133)	(231)	(289)
Total operating profit (loss)	40	(220)	(3,417)
Net interest payable	(20)	(33)	(177)
Profit (loss) before taxation	20	(253)	(3,594)
Profit (loss) before goodwill amortisation, exceptional items and taxation	20	(122)	(516)
Taxation	(34)	20	69
Loss after taxation	(14)	(233)	(3,525)
Minority interests	(32)	(1)	(4)
Loss attributable to shareholders and transfer from reserves for the financial year	(46)	(234)	(3,529)

Part 5: Financial information on mmO₂

3. Combined balance sheet of mmO₂ at 31 March 2001

	31 March 2001 £m
Fixed assets	
Intangible assets	15,601
Tangible assets	3,721
Investments	33
	19,355
Current assets	
Stocks	157
Debtors	1,379
Investments	361
Cash at bank and in hand	377
	2,274
Creditors: amounts falling due within one year	
Loans and other borrowings	(6,779)
Other creditors	(1,428)
	(8,207)
Net current liabilities	(5,933)
Total assets less current liabilities	13,422
Creditors: amounts falling due after more than one year	
Loans and other borrowings	(10,484)
Provisions for liabilities and charges	(210)
	2,728
Minority interests	(8)
Capital and reserves	2,736
	2,728

4. Note on mmO₂ Listing Particulars

The basis of preparation of information on mmO₂ above is inconsistent in certain respects from that disclosed for mmO₂ in the mmO₂ Listing Particulars and the mmO₂ Summary Particulars; the above information is extracted, without material adjustment, from the group returns used to prepare the consolidated accounts of BT for the years ended 31 March 1999, 2000 and 2001, whereas the financial information in the mmO₂ Listing Particulars and the mmO₂ Summary Particulars has been prepared from underlying records as if mmO₂ had been a discrete operation throughout the periods presented. The principal differences in the basis of presentation are:

(i) Accounting basis differences

BT has refined the basis of accounting for handset sales and related subscriber acquisition costs and certain other items in the year ended 31 March 2001. The mmO₂ Listing Particulars and the mmO₂ Summary Particulars reflect the refined basis of accounting throughout the period covered by the financial information.

(ii) Presentation differences

The mmO₂ Listing Particulars and the mmO₂ Summary Particulars disclose cost of sales as an element of its operating costs, whereas BT has historically disclosed only operating costs. In addition, a number of balance sheet items have been reclassified in the mmO₂ Listing Particulars and the mmO₂ Summary Particulars.

(iii) Interest and debt

Financial information within the mmO₂ Listing Particulars and the mmO₂ Summary Particulars has been prepared by allocating a portion of the Group's short and long-term loans and other borrowings to the mmO₂ Group. The allocation has been determined by reference to the amount of the loans and other borrowings raised by the Group to fund significant acquisitions in the years ended 31 March 2000 and 2001 of mobile businesses and assets including UMTS licences. The financial information presented in respect of mmO₂ above has been prepared on the assumption that external debt related to the acquisition of these assets remains within the BT Group. The above financial information reflects the actual inter-company debt balances and interest charges as extracted, without material adjustment, from the group returns used to prepare the consolidated accounts of BT for the year ended 31 March 2001.

Inter-company balances will be adjusted so as to leave mmO₂ Group with net debt of approximately £500 million upon separation. A pro forma balance sheet reflecting these adjustments is presented in Part 6 of this document.

(iv) Taxation

The mmO₂ Listing Particulars and the mmO₂ Summary Particulars reflect the allocation of tax in respect of the above items.

Further, as a result of the preparation of a stand alone record for mmO₂, certain consolidation, carve out and other adjustments have been recorded to the underlying records of the mmO₂ businesses in arriving at the financial information included in the mmO₂ Listing Particulars and the mmO₂ Summary Particulars. The overall impact of these differences is not material to the information provided by BT on mmO₂.

Part 6:
Pro forma financial information:

Profit and Loss Account

for the year ended 31 March 2001 and

Balance Sheet

as at 30 June 2001

Introduction

The following unaudited pro forma consolidated financial information has been prepared, for illustrative purposes only, to show primarily the effects on the profit and loss account of BT of the Demerger as if it had become effective on 1 April 2000 and on the balance sheet of BT as if the Demerger had become effective on 30 June 2001.

The unaudited pro forma consolidated financial information also shows the effects of major transactions which were completed by BT since 1 April 2000. These major transactions are the acquisition of the full ownership of Viag Interkom, the Rights Issue, the sale of the Yell business, and the sale of the Group's Japanese investments. The pro forma profit and loss information reflects these transactions as if they had occurred immediately prior to 1 April 2000. The major transactions listed above had completed prior to 30 June 2001 and consequently their effect is already reflected in the actual BT balance sheet at that date.

Viag Interkom

BT took full ownership of Viag Interkom by purchasing the remaining stakes from Viag Interkom's other shareholders in January and February 2001 for £5.6 billion. As part of this purchase, BT also repaid loans totalling £2.9 billion between Viag Interkom and its other shareholders, which, together with a £2.3 billion loan from BT, had been used to fund Viag Interkom's £5.2 billion purchase of its UMTS licence. These payments were primarily funded by the issuance of long-term debt.

Rights issue

BT completed a Rights Issue which closed on 15 June 2001 under which net proceeds of approximately £5.9 billion were raised from the issue of 1,975,580,052 Ordinary Shares.

Yell

On 25 June 2001, BT completed the sale of the Yell classified directory advertising business for proceeds of approximately £2 billion.

Japan

In June 2001, BT completed the sale of its 20 per cent. interests in Japan Telecom and J-Phone Communications KK for net proceeds of £3.3 billion, after taking into account an option payment of £0.4 billion in June 2001.

The unaudited pro forma financial information below has been included for illustrative purposes only and, because of its nature, may not give a true and fair picture of the consolidated results and the financial position of BT Group plc following the completion of the Demerger and the other major transactions described.

Pro forma consolidated profit and loss account for BT Group plc for the year ended 31 March 2001

	Historical BT	BT pro forma adjustments	Pro forma BT prior to the Demerger	Adjustments for mmO ₂	Eliminations and other	Pro forma BT Group
	(note 1a) £m	(note 1b) £m	£m	(note 1g) £m	(note 1i) £m	£m
Group turnover	20,427	203	20,630	(4,109)	851	17,372
Other operating income	393	—	393	—	—	393
Operating costs	(20,759)	(1,302)	(22,061)	7,992	(851)	(14,920)
Group operating profit (loss)	61	(1,099)	(1,038)	3,883	—	2,845
Group's share of operating loss of joint ventures and associates	(397)	(99)	(496)	29	—	(467)
Total operating profit (loss)	(336)	(1,198)	(1,534)	3,912	—	2,378
Profit on sale of group undertakings and fixed asset investments	619	—	619	—	—	619
Net interest payable	(1,314)	230	(1,084)	260	—	(824)
Profit (loss) on ordinary activities before taxation	(1,031)	(968)	(1,999)	4,172	—	2,173
Tax on profit (loss) on ordinary activities	(652)	275	(377)	(69)	—	(446)
Profit (loss) on ordinary activities after taxation	(1,683)	(693)	(2,376)	4,103	—	1,727
Minority interests	(127)	125	(2)	4	—	2
Profit (loss) for the financial year	(1,810)	(568)	(2,378)	4,107	—	1,729

Part 6: Pro forma financial information:*Profit and Loss Account for the year ended 31 March 2001 and Balance Sheet as at 30 June 2001***Pro forma consolidated balance sheet for BT Group plc as at 30 June 2001**

	Historical BT	Adjustments for mmO ₂	Adjustments for mmO ₂ net debt	Pro forma BT Group
	(note 1a)	(note 1g)	(note 1h)	
	£m	£m	£m	£m
Fixed assets				
Intangible assets	18,297	(15,998)	—	2,299
Tangible assets	21,610	(3,877)	—	17,733
Investments	3,675	(30)	—	3,645
Total fixed assets	43,582	(19,905)	—	23,677
Current assets				
Stocks	289	(145)	—	144
Debtors	7,380	(1,602)	—	5,778
Investments	10,754	(495)	133	10,392
Cash at bank and in hand	388	(343)	343	388
Total current assets	18,811	(2,585)	476	16,702
Creditors: amounts falling due within one year				
Loans and other borrowings	(10,990)	5,777	(5,277)	(10,490)
Other creditors	(8,961)	2,107	—	(6,854)
Total creditors: amounts falling due within one year	(19,951)	7,884	(5,277)	(17,344)
Net current assets (liabilities)	(1,140)	5,299	(4,801)	(642)
Total assets less current liabilities	42,442	(14,606)	(4,801)	23,035
Creditors: amounts falling due after more than one year				
Loans and other borrowings	(17,633)	11,481	(11,119)	(17,271)
Provisions for liabilities and charges	(2,769)	191	—	(2,578)
Total net assets	22,040	(2,934)	(15,920)	3,186
Minority interests	82	—	—	82
Capital and reserves	21,958	(2,934)	(15,920)	3,104
	22,040	(2,934)	(15,920)	3,186

Notes to the pro forma consolidated financial information on BT Group plc

1. Basis of preparation

The unaudited pro forma consolidated financial information has been prepared on a basis consistent with BT's accounting policies.

BT

- (a) Financial information in respect of BT for the year ended 31 March 2001 has been extracted without material adjustment from the annual report and accounts for the year ended 31 March 2001 and financial information as at 30 June 2001 has been extracted without material adjustment from the unaudited first quarter results to 30 June 2001 of BT.

No account has been taken of trading of any constituent part of BT since 31 March 2001 for the profit and loss account, or for the balance sheet since 30 June 2001.

BT pro forma adjustments

- (b) BT pro forma profit and loss account adjustments reflect the impact of transactions which have been made by BT before the Demerger, described in more detail below:

	Acquisition of Viag Interkom (note 1c) £m	Rights Issue (note 1d) £m	Sale of Yell (note 1e) £m	Sale of Japanese investments (note 1f) £m	Total BT adjustments £m
Impact on:					
Group turnover	978	—	(775)	—	203
Operating costs	(1,891)	—	589	—	(1,302)
Group operating profit (loss)	(913)	—	(186)	—	(1,099)
Group's share of operating loss of joint ventures and associates	277	—	(2)	(374)	(99)
Total operating profit (loss)	(636)	—	(188)	(374)	(1,198)
Profit on sale of group undertakings and fixed asset investments	—	—	—	—	—
Net interest payable	(596)	382	155	289	230
Profit (loss) on ordinary activities before tax	(1,232)	382	(33)	(85)	(968)
Tax on profit (loss) on ordinary activities	301	(115)	19	70	275
Profit (loss) on ordinary activities after taxation	(931)	267	(14)	(15)	(693)
Minority interest	—	—	—	125	125
Profit (loss) for the financial year	(931)	267	(14)	110	(568)

Acquisition of Viag Interkom

- (c) The Group's interest in Viag Interkom was accounted for as a joint venture interest in the period from 1 April 2000 to 19 February 2001 and as a subsidiary in the period from 20 February 2001. For the purposes of the pro forma consolidated financial information, adjustments have been made to account for Viag Interkom as if it had been a subsidiary undertaking throughout the year ended 31 March 2001. Accordingly this column incorporates the results of Viag Interkom for the period from 1 April 2000 to 19 February 2001, the amortisation of goodwill arising on consolidation and the interest charge on the incremental debt taken on to fund the acquisition and also eliminates the share of Viag Interkom's results taken up by the Group whilst it was a joint venture. The results of Viag Interkom are extracted without material adjustment from the return of Viag Interkom prepared for inclusion in the consolidated Group results for the year ended 31 March 2001. The adjustments in respect of Viag Interkom are as disclosed in the Rights Issue prospectus issued by BT on 10 May 2001.

Part 6: Pro forma financial information:
Profit and Loss Account for the year ended 31 March 2001 and Balance Sheet as at 30 June 2001

Pro forma profit and loss account adjustments in respect of the Group's acquisition of Viag Interkom reflect:

	Eliminate share of Viag Interkom's results as associate (i) £m	Eliminate Viag Interkom as subsidiary (ii) £m	Add Viag Interkom's results for year to 31 March 2001 (iii) £m	Interest on incremental debt (iv) £m	Pro forma goodwill (v) £m	Tax credit for Viag Interkom losses (vi) £m	Total adjustments for acquisition of Viag Interkom (vii) £m
Impact on:							
Group turnover	—	(100)	1,078	—	—	—	978
Operating costs	—	193	(1,855)	—	(229)	—	(1,891)
Group operating profit (loss)	—	93	(777)	—	(229)	—	(913)
Group's share of operating loss of joint ventures and associates	277	—	—	—	—	—	277
Total operating profit (loss)	277	93	(777)	—	(229)	—	(636)
Profit on sale of group undertakings and fixed asset investments	—	(12)	12	—	—	—	—
Net interest payable	70	28	(176)	(518)	—	—	(596)
Profit (loss) on ordinary activities before tax	347	109	(941)	(518)	(229)	—	(1,232)
Tax on profit (loss) on ordinary activities	(104)	(32)	—	155	—	282	301
Profit (loss) on ordinary activities after taxation	243	77	(941)	(363)	(229)	282	(931)

Notes:

- (i) Elimination of the share of results for Viag Interkom as an associate, and related tax credit arising from group relief on Viag Interkom's losses, for the period from 1 April 2000 to 19 February 2001.
- (ii) Elimination of the accounting for Viag Interkom as a subsidiary, and related tax credit arising from group relief on Viag Interkom's losses, from 20 February 2001 to 31 March 2001.
- (iii) Addition of full results for Viag Interkom as a subsidiary from 1 April 2000 to 31 March 2001.
- (iv) An increase in interest payable of £518 million, to reflect the purchase of the remaining 55 per cent. of Viag Interkom for £5.6 billion as if it had occurred on 1 April 2000 and the total cost of funding Viag Interkom's UMTS licence of £5.2 billion based on the increase in long-term fixed rate debt at the average rate to the Group for the year ended 31 March 2001 of 7.1 per cent. Tax relief on the additional interest has been reflected at 30 per cent.
- (v) Adjustment to the goodwill amortisation charge by £229 million in respect of the goodwill arising on the acquisition of the additional stake in Viag Interkom to incorporate a full year's charge. A goodwill impairment charge of £3,000 million was made at 31 March 2001 and thus the full year's amortisation charge is expected to be £100 million from 1 April 2001 based on the revised book value of goodwill and exchange rates ruling at 1 April 2001.
- (vi) Adjustment to the Group tax charge to reflect group relief for Viag Interkom's losses for the year ended 31 March 2001 at 30 per cent.
- (vii) This column shows the total adjustments relating to the acquisition of Viag Interkom's fixed and mobile businesses. The mobile element is analysed within note 1(g).

Rights Issue

- (d) The Group received gross proceeds of £5,928 million in June 2001 on the completion of the Rights Issue of 1,975,580,052 shares at 300 pence per share which, after deduction of costs of £52 million, gave net proceeds of £5,876 million.

The proceeds of the Rights Issue have been allocated to reduce short-term debt. Accordingly the impact on the Group's net interest payable has been calculated as if the proceeds from the Rights Issue were received on 1 April 2000, with a resulting reduction in the annual interest charge of £382 million based on the Group's average interest rate for short-term debt of 6.5 per cent. for the year ended 31 March 2001. Tax on this interest has been included at the UK tax rate for the year ended 31 March 2001 of 30 per cent.

The adjustments in respect of the Rights Issue are consistent with those disclosed in the Rights Issue Prospectus dated 10 May 2001.

Sale of Yell

- (e) BT completed the sale of its Yell business on 25 June 2001 for proceeds of approximately £2 billion. The pro forma profit and loss account reflects this sale as if it had occurred on 1 April 2000 by eliminating the results of the Yell business for the year ended 31 March 2001. The information relating to Yell has been extracted without material adjustment from the Group return prepared for inclusion in the consolidated BT results for the year ended 31 March 2001 as referred to in note 1(a) above. The impact on the Group's net interest payable has been calculated as if the proceeds from the sale were received on 1 April 2000, with a resulting reduction in the annual interest charge of £130 million based on the Group's average interest rate for short-term debt of 6.5 per cent. for the year ended 31 March 2001. Tax on this interest has been included at the UK tax rate for the year ended 31 March 2001 of 30 per cent.

Sale of Japanese investments

- (f) BT completed the sale of its 20 per cent. interest in Japan Telecom and its 20 per cent. interest in J-Phone Communications KK on 1 June 2001 and subsequently its interest in J-Phone group companies for net proceeds of £3.32 billion. Prior to that date these investments were accounted for as associated undertakings. The pro forma profit and loss account reflects these sales as if they had occurred on 1 April 2000 by eliminating the share of the results of the Japanese businesses included in the Group results for the year ended 31 March 2001. The information relating to the Japanese investments has been extracted without material adjustment from the Group return prepared for inclusion in the consolidated BT results for the year ended 31 March 2001 as referred to in note 1(a) above. The impact on the Group's net interest payable has been calculated as if the proceeds from the sales were received on 1 April 2000, with a resulting reduction in the annual interest charge of £216 million based on the Group's average interest rate for short-term debt of 6.5 per cent. for the year ended 31 March 2001. Tax on this interest has been included at the UK tax rate for the year ended 31 March 2001 of 30 per cent.

mmO₂

(g) Profit and loss account

The information relating to mmO₂ has been extracted from Part 5. It has been adjusted for the pro forma mmO₂ share of the results of Viag Interkom for the year ended 31 March 2001 and for the pro forma goodwill amortisation charge arising as set out below.

	mmO ₂ (i) £m	mmO ₂ share of Viag Interkom (ii) £m	Other pro forma adjustments (iii) £m	Pro forma mmO ₂ £m
Impact on:				
Group turnover	(3,399)	(710)	—	(4,109)
Operating costs	6,527	1,287	178	7,992
Group operating profit (loss)	3,128	577	178	3,883
Group's share of operating loss of joint ventures and associates	289	(260)	—	29
Total operating profit (loss)	3,417	317	178	3,912
Net interest payable	177	83	—	260
Profit (loss) on ordinary activities before tax	3,594	400	178	4,172
Tax on profit (loss) on ordinary activities	(69)	—	—	(69)
Profit (loss) on ordinary activities after taxation	3,525	400	178	4,103
Minority interests	4	—	—	4
Loss attributable to shareholders and transfer from reserves for the financial year	3,529	400	178	4,107

Notes:

- (i) mmO₂ results as shown in Part 5 of this document extracted without material adjustment from group returns used to prepare the consolidated accounts of BT for the year ended 31 March 2001.
- (ii) As stated in note 1(c) the BT pro forma information incorporates the results of Viag Interkom as if it had been a subsidiary undertaking throughout the year ended 31 March 2001. This column therefore reflects the Viag Interkom results for this period which have been allocated to mmO₂. The full results of Viag Interkom for this period are shown in note 1(c).
- (iii) This column represents an adjustment to the goodwill amortisation charge by £178 million in respect of the goodwill arising on the acquisition of the additional stake in Viag Interkom to incorporate a full year's charge. A goodwill impairment charge of £2,800 million relating to the mmO₂ element of Viag Interkom has been made at 31 March 2001 and thus the full year's amortisation charge is expected to be £45 million from 1 April 2001 based on the revised book value of goodwill.

Part 6: Pro forma financial information:

Profit and Loss Account for the year ended 31 March 2001 and Balance Sheet as at 30 June 2001

Balance sheet

The mmO₂ balance sheet at 30 June 2001 has been extracted without material adjustment, from the Group returns of mmO₂ prepared for inclusion in the Group results at 30 June 2001.

- (h) On Demerger, BT's net investment in mmO₂ and loans to mmO₂ will be reduced to give mmO₂ net debt of approximately £500 million upon separation. The balance sheet of mmO₂ at 30 June 2001 has therefore been adjusted to exclude certain balances to give mmO₂ net debt of approximately £500 million.

Eliminations and other

- (i) The adjustment reflects intra-group transactions between BT Group and the discontinued operations of BT, principally mmO₂, eliminated upon consolidation of the then existing Group for the year ended 31 March 2001.

The Directors
British Telecommunications public limited company
BT Centre
81 Newgate Street
London EC1A 7AJ

The Directors
Cazenove & Co. Ltd
12 Tokenhouse Yard
London EC2R 7AN

18 September 2001

Dear Sirs

British Telecommunications public limited company (“BT”)

We report on the pro forma financial information set out in Part 6 of BT’s circular dated 18 September 2001. The pro forma financial information has been prepared, for illustrative purposes only, to provide information about how the proposed demerger of the mmO₂ business (as defined in the Circular) might have affected the consolidated balance sheet of BT and its subsidiaries (“the Group”) as at 30 June 2001 and how the proposed demerger of the mmO₂ business, the acquisition of Viag Interkom, the Rights Issue and the sale of Yell and the Group’s Japanese investments might have affected the consolidated profit and loss account of BT for the year ended 31 March 2001.

Responsibilities

It is the responsibility solely of the directors of BT to prepare the pro forma financial information in accordance with paragraph 12.29 of the Listing Rules of the UK Listing Authority (“the Listing Rules”).

It is our responsibility to form an opinion, as required by the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of BT.

Our work has not been carried out in accordance with auditing standards generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards.

Part 6: Pro forma financial information:
Profit and Loss Account for the year ended 31 March 2001 and Balance Sheet as at 30 June 2001

Opinion

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of BT; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 12.29 of the Listing Rules.

Yours faithfully

PricewaterhouseCoopers
Chartered Accountants

Part 7:
Additional information

Part 7: Additional information

Section A: Additional information relating to BT

1. Responsibility

The Directors, whose names appear on page 9 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Incorporation and activities

- (i) BT was incorporated and registered in England and Wales on 1 April 1984 under the Companies Acts 1948 to 1981 as a public limited company with registered number 1800000.
- (ii) The registered office of BT is 81 Newgate Street, London EC1A 7AJ.
- (iii) BT is the parent company of the Group, one of Europe's leading communications companies, offering voice, broadband, data, internet and wireless services across a number of lines of business.

3. Share Capital

At 17 September 2001, the latest practicable date prior to the publication of this document, the authorised and issued share capital of BT was as follows:

Authorised		Issued	
Number	Amount	Number	Amount
10,500,000,004	£2,625,000,001	8,599,473,628	£2,149,868,407

4. Directors' and others' interests

- (a) At 17 September 2001, the latest practicable date prior to the publication of this document, the interests of the Directors (and persons connected with them within the meaning of section 346 of the Companies Act) in the share capital of BT (a) which are required to be notified by each Director to BT pursuant to section 324 or section 328 of the Companies Act or (b) are required to be entered in the register referred to in section 325 of the Companies Act or (c) are interests of a connected person of a Director which would, if the connected person were a Director, be required to be disclosed under (a) or (b), and the existence of which is known, or which could, with reasonable diligence, be ascertained by that Director, were as follows:

Interests in BT Shares

Name of Director	Number of BT Shares
Sir Christopher Bland	286,000
Sir Peter Bonfield	21,883 ⁽¹⁾
Philip Hampton	1,014
Sir Anthony Greener	11,615
Helen Alexander	3,500
Dr Iain Anderson	7,683
Maarten van den Bergh	2,800
Louis Hughes	6,800
Neville Isdell	29,750
June de Moller	2,800
Sir John Weston	1,379

In aggregate, the Directors' interests in BT Shares amount to approximately 0.004 per cent. of BT's issued share capital.

Note:

- (1) Includes 12,487 BT Shares held by Ilford Trustees (Jersey) Limited.

- (b) Details of interests in BT Shares held under the BT Share Schemes at 17 September 2001 (the latest practicable date prior to the publication of this document) are as follows:

Interests under the BT Share Schemes

	ESP	DBP	ISP	RSP	Total
Sir Christopher Bland	—	—	235,697	—	235,697
Sir Peter Bonfield	438,033	317,012	588,652	—	1,343,697
Philip Hampton	—	11,784	153,792	60,189	225,765

Key:

ESP = BT Executive Share Plan

ISP = BT Incentive Share Plan

DBP = BT Deferred Bonus Plan

RSP = BT Retention Share Plan

In aggregate, the Directors' interests under the BT Share Schemes amount to approximately 0.02 per cent. of BT's issued share capital.

The impact of the Scheme and Demerger on share awards held under the BT Share Schemes referred to above are set out in paragraph 14 of Part 3 of this document. These awards will, subject to vesting, be satisfied in BT Group Shares only, following an adjustment to take account of the Scheme and the Demerger. It is not currently possible to provide details of the Directors' interests in BT Group Shares which will exist following the Demerger because the terms of the adjustment referred to above cannot be established until after Admission.

- (c) In accordance with the terms of his service contract, Sir Christopher Bland purchased shares to the value of £1 million on 15 May 2001 and on 22 June 2001 an option over 238,100 shares with an exercise price of 420p per share under the BT Global Share Option Plan was granted to him. This option is normally exercisable between May 2004 and June 2011. As set out in paragraph 14 of Part 3 of this document this option will be exchanged for a replacement option over BT Group Shares. It is not currently possible to state the number of BT Group Shares and the exercise price under the new option, as the revised terms cannot be established until after Admission.

None of the other Directors hold options, or exercised options during the year, under the BT Option Schemes.

- (d) Save as disclosed above, none of the Directors (nor any person connected with them) will have a beneficial or non-beneficial interest in the share capital of BT. Save as disclosed above, none of the Directors (nor any person connected with them) holds an interest in any other securities of BT.
- (e) No Director has or has had any interests in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of BT or the Group and which was effected by the Group in the current or immediately preceding financial year of the Group or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.
- (f) It is estimated that under arrangements in force as at the date of this document, the aggregate remuneration to be paid and benefits in kind to be granted to the Directors by the Group for the year ending 31 March 2002 will be approximately £3,605,000.
- (g) The aggregate of the remuneration paid and benefits in kind granted to the Directors by any member of the Group in respect of the year ended 31 March 2001 was approximately £2,000,000 including benefits from car schemes, loans and health insurance arrangements.
- (h) There are no outstanding loans granted by BT or any member of the Group to any Director nor any guarantees provided by any member of the Group for the benefit of any Director.
- (i) None of the Directors has waived or agreed to waive any future emoluments during the past financial year.
- (j) The Company is not aware of any persons who as at the date of this document could directly or indirectly, jointly or severally, exercise control over the Company.
- (k) As at 17 September 2001, the latest practicable date prior to the publication of this document, the Company is not aware of any person who is or, immediately following Admission, will be interested (within the meaning of the Act), directly or indirectly, in three per cent. or more of the issued share capital of the Company.

Part 7: Additional information

5. Directors' service agreements and terms of appointment

The remuneration (including salary and other benefits) payable under the Chairman's and Executive Directors' service contracts are as follows:

Chairman and Executive Directors	Salary and fees £000	Other benefits ^(a/b) £000
Sir Christopher Bland	500	50
Sir Peter Bonfield ^(c)	820	50
Philip Hampton	435	50

Notes:

- (a) Estimated value for financial year ending 31 March 2002 of contractual benefits (excluding pension), comprising car allowance, healthcare, telecommunications facilities and professional subscriptions and advice. In addition the Chairman and the Executive Directors participate in pension arrangements.
- (b) Sir Peter Bonfield and Philip Hampton may be paid a bonus at the discretion of the Board and at the discretion of the Board may participate in any scheme established for BT employees to acquire shares in BT.
- (c) Sir Peter Bonfield's contract contains an entitlement to receive an award in 2001 of 200 per cent. of salary under BT's Incentive Share Plan and 100 per cent. of bonus (£481,000) under BT's Deferred Bonus Plan. If the contract is in effect on 31 December 2002, Sir Peter Bonfield will be paid a terminal bonus of £820,000 as an incentive to oversee the restructuring of the Group, in addition to his on-target annual bonus and additional pensionable service of one year and he will be entitled to have all share awards preserved subject to performance targets being met.

The dates on which the Chairman's and each Executive Director's initial service agreement commenced and the current expiry dates are as follows:

Chairman and Executive Directors	Commencement date of initial service contract	Expiry date of current service contract
Sir Christopher Bland	1 May 2001	^(a/d)
Sir Peter Bonfield	1 January 1996	31 December 2002 ^(b/d)
Philip Hampton	1 November 2000	1 November 2002 ^(c/d)

Notes:

- (a) Sir Christopher Bland's contract is terminable on 12 months' notice by either the Company or the Director.
- (b) Sir Peter Bonfield entered into a new contract on 4 May 2001, which continues to 31 December 2002, terminable earlier by the Company on payment of 12 months' compensation or on six months' notice by the Director. It may continue after that date if both the Company and the Director agree. If BT terminates Sir Peter Bonfield's contract within one year of BT becoming a subsidiary of another company, other than in pursuance of a scheme of arrangement or if the ultimate holding company would have substantially the same shareholders as those of BT immediately prior to the relevant events, then BT will pay the total of the current year's on target bonus or the previous year's bonus (whichever is the higher); the market value of all shares awarded under any share ownership plan or deferred bonus plan which have not vested at the date of termination; and 12 months' salary and benefits.
- (c) Philip Hampton entered into a contract commencing on 1 November 2000 for an initial period of two years. The contract is terminable on 12 months' notice ending at any time after the initial period by either the Company or the Director. If BT terminates Philip Hampton's contract within one year of BT entering into a scheme of arrangement or becoming a subsidiary of another company, then BT will pay the total of the current year's on target bonus or the previous year's bonus (whichever is the higher); the market value of all shares awarded under any share ownership plan or deferred bonus plan which have not vested at the date of termination; and 12 months' salary and benefits.
- (d) BT has the discretion to pay Sir Christopher Bland, Sir Peter Bonfield and Philip Hampton 12 months' salary and benefits in lieu of notice.

Non-Executive Directors

The date of expiry of the current term of appointment for each of the non-executive Directors and their current fees are as follows:

Name of Non-Executive Director	Date of expiry of current term of appointment (a)	Total fees and other benefits payable
Sir Anthony Armitage Greener	30 September 2003	£90,000
Helen Alexander	31 May 2002	£35,000
Dr James Iain Walker Anderson	30 September 2001	£57,000
Maarten Albert van den Bergh	31 August 2003	£40,000
Louis Ralph Hughes	31 December 2002	£37,000
Neville Isdell	30 June 2002	£40,000 ^(b)
June Frances de Moller	31 August 2002	£35,000
Sir Philip John Weston	30 September 2002	£38,000

Notes:

- (a) Each Director's contract of appointment is for an initial period of three years. After that period, the contract is terminable on 12 months' notice by either the Company or the Director.
- (b) In addition, in the current financial year, Neville Isdell received £65,000 in fees from Yell, a subsidiary of BT disposed of in the current year.

Details of proposed new service contracts for each of Sir Christopher Bland, Sir Peter Bonfield and Philip Hampton with BT Group plc are set out in paragraph 4 of Section B of this Part 7.

Section B: Additional information relating to BT Group plc

1. Incorporation

- (a) BT Group plc was incorporated and registered in England and Wales on 30 March 2001 under the Companies Act as a private limited company with the name Newgate Telecommunications Limited with registered number 4190816. By a special resolution dated 10 September 2001 its name was changed to BT Group plc and it was reregistered as a public limited company.
- (b) The registered office of BT Group plc is 81 Newgate Street, London EC1A 7AJ.
- (c) BT Group plc has not traded since incorporation.
- (d) By a resolution of the directors of BT Group plc dated 4 April 2001, PricewaterhouseCoopers, Chartered Accountants, whose address is 1 Embankment Place, London WC2N 6RH, were appointed as the first auditors of BT Group plc.
- (e) After the Demerger Effective Time, BT Group plc will be the parent company of BT Group, one of Europe's leading communications companies, offering voice, broadband, data, and internet services across a number of lines of business, as described in Part 4 of this document.

2. Share Capital

On incorporation, the authorised share capital of BT Group plc was £100 divided into 100 ordinary shares of £1 each, of which two ordinary shares were allotted and paid on incorporation. On 10 September 2001, a further 44 ordinary shares of £1 each were allotted and issued, and the authorised share capital was increased to £23,000,050,025 by the creation of 22,999,999,900 further ordinary shares and one redeemable preference share of £50,025. By an ordinary resolution of the shareholders dated 10 September 2001, the 23,000,000,000 ordinary shares of £1 each were consolidated and subdivided into 20,000,000,000 ordinary shares of 115 pence each. The redeemable preference share was allotted and paid up in full on 10 September 2001. No application is being made to list the redeemable preference share.

The redeemable preference share carries no right to vote and carries the right to receive dividends at the cumulative fixed rate of 0.04 per cent. of its nominal value per annum, but no other right to participate in the profits of BT Group plc.

On 17 September 2001, the latest practicable date prior to the publication of this document, the authorised and issued share capital of BT Group plc was as follows:

Authorised		Issued	
Number	Amount	Number	Amount
20,000,000,000	£23,000,000,000	40	£46
1	£50,025	1	£50,025

Alan Scott and David Borthwick are employees of BT and are the initial shareholders of BT Group plc. Alan Scott holds 20 ordinary shares. David Borthwick holds 20 ordinary shares. Jeffery Fisher, who is also an employee of BT, holds the redeemable preference share.

By special resolutions passed on 10 September 2001, it was resolved that:

- (a) upon redemption in full of the one redeemable preference share in the share capital of BT Group plc, the BT Group Articles be amended by deleting the terms relating to the redeemable preference share;
- (b) BT Group plc be generally and unconditionally authorised to make market purchases (within the meaning of section 163 of the Act) of BT Group Shares provided that:
 - (i) the minimum price that may be paid for any BT Group Share is 115 pence (or such higher amount as may be required by law) and the maximum price that may be paid for any BT Group Share is an amount equal to 105 per cent. of the average of the middle market quotations for such share as is derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the BT Group Share is contracted to be purchased; and
 - (ii) the maximum number of BT Group Shares that may be acquired under that authority is 870,000,000 (representing approximately 10 per cent. of the issued ordinary share capital of BT Group plc expected to be in issue upon the Demerger becoming effective), such authority to expire on 10 September 2002 or at the conclusion of the annual general meeting of BT Group plc in 2002, whichever is earlier, except that BT Group plc may before such expiry enter into a contract to purchase such shares which would or might be executed wholly or partly after such expiry; and

Part 7: Additional information

(c) subject to and conditional upon the BT Group Shares required to be issued by BT Group plc pursuant to the Demerger having been registered in the names of the persons entitled thereto:

(i) the capital of BT Group plc be reduced by:

(a) cancelling paid up capital to the extent of 110 pence on each of the BT Group Shares in issue at the close of business on the day immediately preceding the date (the "Order Date") on which an order is made confirming the BT Group Reduction of Capital or, if later, the date on which such order is expressed to take effect ; and

(b) reducing the nominal amount of each of the BT Group Shares referred to in paragraph (a) above from 115 pence to 5 pence;

(ii) forthwith upon the reduction of capital taking effect each of the BT Group Shares which are authorised but unissued at the close of business on the day immediately preceding the Order Date be sub-divided into 23 BT Group Shares of 5 pence each.

On the Demerger becoming effective, assuming that no further BT Shares have been issued or repurchased after 17 September 2001, the latest practicable date prior to the publication of this document, in accordance with the exercise of rights granted under the BT Share Schemes, the authorised and issued share capital of BT Group plc is expected to be as follows:

Authorised		Issued		
Number	Amount	Number	Amount	
20,000,000,000	£23,000,000,000	ordinary shares	8,599,475,668	£9,889,397,018.20
1	£50,025	redeemable preference share	1	£50,025

Under the BT Group Articles, a new authority and power to allot shares is being given to the directors of BT Group plc. The authorised share capital of BT Group plc is £23,000,050,025. The directors of BT Group plc will be authorised generally under section 80 of the Companies Act to allot shares or rights to subscribe or to convert any security into shares with an aggregate nominal value equal to the section 80 amount, as defined in the BT Group Articles. By an ordinary resolution dated 10 September 2001, the section 80 amount was set at £13,455,050,025. This authority will end on the date of BT Group's Annual General Meeting in 2002 or, if earlier, on 10 December 2002. The authority to allot shares or rights to shares under section 80 of the Companies Act has been calculated on the basis that the directors of BT Group plc will require sufficient authorised share capital and authority to cover the aggregate of (1) the BT Group plc initial allotment of approximately 8.7 billion BT Group Shares upon the Demerger becoming effective (based on the BT shares in issue as at 10 September 2001 (the date the BT Group Articles were adopted) and the directors' estimate of the maximum number of BT Shares that may be required to be issued on or before the Scheme Reduction Time in connection with the exercise of options under the BT Option Schemes and the operation of the Special Purpose Trust (as described in paragraph 14(ii) of Part 3 above)), (2) the allotment of one redeemable preference share of £50,025 and (3) an amount equal to approximately 33 per cent. of the expected issued ordinary share capital of BT Group plc immediately after the allotment of the BT Group Shares pursuant to the Demerger referred to in (1) above.

The directors are also being empowered under the BT Group Articles to allot equity securities (within the meaning of section 94 of the Companies Act) for cash, where they have the general authority under section 80 referred to above, as if section 89(1) of the Companies Act did not apply to it. There is no limit on the maximum amount of equity securities which can be allotted under this power where the allotment is in connection with a rights issue (as defined in the BT Group Articles). In all other cases, the maximum nominal amount of equity securities which can be allotted under this power is the section 89 amount. By a special resolution dated 10 September 2001, the section 89 amount was set at £500,130,000 (being approximately 5 per cent. of the expected issued share capital of BT Group plc assuming approximately 8.7 billion BT Group Shares are allotted and issued upon the Demerger being implemented) for a period ending on the date of BT Group plc's Annual General Meeting in 2002 or, if earlier, on 10 December 2002.

During the periods referred to above, the BT Group plc directors can make offers and enter into agreements which would, or might, require shares to be allotted after these periods. Each of the authorities referred to in the two preceding paragraphs can be extended or renewed by shareholder approval (by an ordinary resolution in the case of the section 80 authority and by a special resolution in the case of the section 89 authority).

3. Summary of the Principal Differences between the BT Group Articles and the current BT Articles

The BT Group Articles do not include the provisions proposed to be inserted in the BT Articles by the First Resolution, as described in paragraph 21, "Amendment to the BT Articles" in Part 3 of this document.

The principal differences between the BT Group Articles and the current BT Articles are explained below. The principal reasons for the differences are:

- to give full effect to the Companies Act 1985 (Electronic Communications) Order 2000 (the “Electronic Communications Order”);
- to reflect the actual authorised share capital of BT Group plc;
- to remove limits on shareholdings;
- to clarify the power to appoint company representatives;
- to amend borrowing restrictions;
- to amend how directors retire by rotation;
- to enable the shares of untraceable shareholders to be sold after a shorter specified time;
- to allow proxies to vote at general meetings on a show of hands;
- to enable the company to forfeit unclaimed dividends after a shorter specified time;
- to set out the rights relating to the redeemable preference share; and
- to amend the minimum number of directors.

Changes of a minor or technical nature have not been mentioned specifically.

Electronic Communication

The BT Articles contain many provisions which seek to allow for communication between companies and their shareholders by electronic means. Provisions have been included in the BT Group Articles to give full effect to the Electronic Communications Order.

None of the changes will force either BT Group plc or any individual shareholder to send or receive documents or notices by electronic mail. Instead, they permit this to occur where appropriate and where both parties agree. Subject to prior agreement between the shareholders and BT Group plc, electronic communication will be possible in the following areas:

- proxy appointment and acceptance of proxy appointments (no change from current BT Articles);
- notice of meetings and service of notice including publication on web sites;
- distribution of accounts and reports by BT Group plc;
- signature of documents; and
- attendance at meetings, in certain circumstances.

Authorised share capital

The authorised share capital of BT Group plc is 20,000,000,000 ordinary shares of 115 pence each and one redeemable preference share of £50,025. Upon the BT Group Reduction of Capital becoming effective the authorised share capital of BT Group plc will change in accordance with the reduction of capital resolution of BT Group plc described in paragraph 2(c) above. Upon redemption of the redeemable preference share of £50,025, the authorised share capital relating to that share will be converted into authorised ordinary share capital.

Limits on shareholdings

The BT Articles prevent a person (except for a Permitted Person, as defined in the articles) from holding directly or indirectly 15 per cent. or more of the votes which could be cast on a poll at a general meeting. The Articles of BT Group plc do not contain this provision.

Appointment of company representatives

A company which is a shareholder of BT Group plc can appoint several people to act as its representative. These are known as company representatives.

Borrowing restrictions imposed on the board

Under the BT Group Articles, the Board must limit the borrowings of the Company and its voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertaking so as to ensure that the aggregate amount of all borrowings by the BT Group outstanding, net of cash and short-term investments maturing within three months, at any time does not exceed £35 billion. Under the BT Articles, borrowing is limited to not more than three times the Adjusted Capital and Reserves.

Part 7: Additional information

Retirement by rotation of directors

Directors must retire at the AGM held in the third calendar year after they were last elected or re-elected. Under the BT Articles, at least one-third of the directors must retire by rotation.

Sale of the shares of untraceable shareholders

BT Group plc can sell the shares where there has been no contact with the shareholder for 10 years. BT Group plc must also make specific enquiry as to the whereabouts of the shareholder.

The BT Articles allow sale of the shares after a period of 12 years.

Proxies voting

The BT Articles allow proxies to vote on a poll, but not on a vote on a show of hands. The BT Group Articles allow proxies to vote both on a poll and a show of hands.

Forfeiture of unclaimed dividends

BT Group plc can forfeit a dividend which has not been claimed for 10 years after it was declared or became due for payment. Under the BT Articles, BT is required to wait 12 years before it can forfeit dividends.

Redeemable preference shares

The BT Group Articles contain details of the rights relating to, and the terms of redemption of, the redeemable preference share. It has been resolved that these provisions will be deleted upon the redeemable preference share being redeemed. It is intended that the redeemable preference share will be redeemed shortly after the BT Group Reduction of Capital becomes effective.

Minimum number of directors

Under the BT Group Articles there must be a minimum of two directors. Under the BT Articles, the minimum is four.

4. Directors of BT Group plc

The following are or will be the Directors of BT Group plc:

Sir Christopher Bland	Chairman
Sir Peter Bonfield, CBE	Chief Executive
Philip Hampton	Group Finance Director
Sir Anthony Greener*	Non-Executive Deputy Chairman
Helen Alexander*	Non-Executive Director
Maarten van den Bergh*	Non-Executive Director
Louis Hughes*	Non-Executive Director
Neville Isdell*	Non-Executive Director
June de Moller*	Non-Executive Director
Sir John Weston*	Non-Executive Director

*To join the board of BT Group plc after the Demerger Effective Time.

Other than as set out below, the emoluments of the Directors will not vary as a consequence of the Scheme. Details of directors' service agreements and terms of appointments with BT are set out in paragraph 5 of Section A of this Part 7.

If the Scheme is approved, it is proposed that Sir Christopher Bland, Sir Peter Bonfield and Philip Hampton will enter into new service contracts with BT Group plc commencing on the Demerger Effective Date. Such service contracts will supersede the existing arrangements with BT, which will terminate without compensation. The new contracts will be upon the same terms as the current service contracts with BT save that BT will pay, in monthly instalments, to Sir Christopher Bland's personal pension plan 10 per cent. per year of his salary up to the limit of Sir Christopher Bland's pension earnings cap, which for the current financial year is £9,540.

Section C: Additional information relating to mmO₂ plc

Certain statutory information on mmO₂ plc is set out in Part 10 of the accompanying mmO₂ Summary Particulars.

Section D: Other additional information

1. UK Taxation

The comments below are based on existing UK law and what is understood to be current Inland Revenue practice, both of which are subject to change at any time, possibly with retrospective effect. They are intended only as a general guide and apply only to shareholders who are resident and ordinarily resident for tax purposes in (and only in) the UK (except insofar as express reference is made to the treatment of non-UK residents), who hold BT Shares as an investment and who are the absolute beneficial owners of such shares. The taxation position of certain shareholders who are subject to special rules, such as dealers in securities, broker-dealers, insurance companies and collective investment schemes, is not considered. Persons who are in any doubt about their tax position, or who are resident or otherwise subject to taxation in a jurisdiction outside the UK, should consult their own professional advisers.

The Scheme and the Demerger

Capital Gains Tax

The Scheme

For the purposes of UK taxation of capital gains (“CGT”) the Scheme should constitute a scheme of reconstruction.

Clearance has been obtained from the Inland Revenue in respect of the Scheme under section 138 of the Taxation of Chargeable Gains Act 1992 (“TCGA”). Accordingly, a BT Shareholder will not be treated as making a disposal for CGT purposes of his BT Shares as a result of receiving mmO₂ Shares under the Scheme, and so no chargeable gain or allowable loss will arise on the cancellation of BT Shares and the issue of mmO₂ Shares to him. Such mmO₂ Shares will be treated as the same asset as the BT Shares, acquired on the same date and for the same consideration as the BT Shares were acquired.

The Demerger

For CGT purposes, the Demerger should constitute a scheme of reconstruction.

Clearance has been obtained from the Inland Revenue under section 138 TCGA in respect of the Demerger. Accordingly, a holder of mmO₂ Shares will not be treated as making a disposal for CGT purposes when he receives BT Group Shares pursuant to the Demerger. Any gain or loss which would otherwise have arisen on a part disposal of mmO₂ Shares will be “rolled over” into the BT Group Shares received by the Shareholder pursuant to the Demerger. Such BT Group Shares will be treated as the same asset as the mmO₂ Shares, acquired on the same date and for the same consideration as the mmO₂ Shares were acquired.

In summary, the mmO₂ Shares and BT Group Shares that will be held by a BT Shareholder following the Scheme and the Demerger will be treated as the same asset as the shareholder’s original BT Shares, acquired on the same date and for the same consideration as such BT Shares were originally acquired. Accordingly, following the Scheme and the Demerger, such shareholder’s original base cost in his BT Shares will be apportioned between his mmO₂ Shares and his BT Group Shares by reference to the market quotations of the mmO₂ Shares and the BT Group Shares on the first day of dealings in such shares as derived from the Official List.

Income Tax

The receipt by shareholders of BT Group Shares on the Demerger will not be treated as a distribution taxable as income in the hands of shareholders. The Inland Revenue has granted a clearance under section 215(1) of the Income and Corporation Taxes Act 1988 (“ICTA”) confirming that the Demerger will be treated as an exempt distribution within the meaning of section 213 ICTA.

Clearance has also been obtained from the Inland Revenue under section 707 ICTA that the provisions of section 703 ICTA (cancellation of tax advantages from certain transactions in securities) will not apply to the proposals for the Scheme or the Demerger.

Tax clearances

The tax clearances granted by the Inland Revenue for the Scheme and the Demerger, as referred to above, remain subject to confirmation.

Part 7: Additional information

Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)

No stamp duty or SDRT will be payable by BT Shareholders or holders of BT ADSs as a result of the cancellation of the BT Shares and BT ADSs and the issue of the mmO₂ Shares and mmO₂ ADSs under the Scheme.

No stamp duty or SDRT should be payable by shareholders as a result of the issue of BT Group Shares under the Demerger. SDRT is generally payable on the issue of shares to a depositary at the rate of 1.5 per cent. of the price of the shares when issued (as described further under the paragraph headed “Stamp Duty and SDRT” on page 65). No such liability will arise as a result of the issue of mmO₂ ADSs under the Scheme. BT Group will pay any such SDRT that arises as a result of the issue of BT Group ADSs under the Demerger.

BT Share Schemes

Special tax provisions may apply to BT Shareholders who have acquired or who acquire their BT Shares by exercising options under the BT Share Schemes, including provisions imposing a charge to income tax.

Position of Trustees

In relation to shareholders who are trustees of trusts governed by English law, although regard must be had to the terms of each particular trust, the mmO₂ Shares received under the Scheme and the BT Group Shares received on the Demerger should, under current law and Inland Revenue practice, each generally be regarded as a capital receipt. In such a case, the tax position of such trustees should be the same as that of shareholders who are individuals. If for any reason the mmO₂ Shares received under the Scheme and the BT Group Shares received on the Demerger are regarded in relation to any particular trust as an income receipt, the trust and tax implications (both for the trustees and the beneficiaries) may be different, and independent professional advice should be taken.

Ownership and Disposal of mmO₂ Shares and BT Group Shares

Dividends

Neither mmO₂ plc nor BT Group plc will be required to withhold tax at source when paying a dividend.

An individual shareholder who is resident in the UK for tax purposes and who receives a dividend from mmO₂ plc or BT Group plc will be entitled to a tax credit which such shareholder may set off against his total income tax liability on the dividend. The tax credit will be equal to 10 per cent. of the aggregate of the dividend and the tax credit (the “gross dividend”), which is also equal to one-ninth of the cash dividend received. A UK resident individual shareholder who is liable to income tax at the starting or basic rate will be subject to tax on the dividend at the rate of 10 per cent. of the gross dividend, so that the tax credit will satisfy in full such shareholder’s liability to income tax in respect of the gross dividend. Generally a UK resident individual shareholder who is not liable to income tax in respect of the gross dividend will not be entitled to repayment of the tax credit. In the case of a UK resident individual shareholder who is liable to income tax at the higher rate, the tax credit will be set against but not fully match his tax liability on the gross dividend and he will have to account for additional tax equal to 22.5 per cent. of the gross dividend (which is also equal to 25 per cent. of the cash dividend received) to the extent that the gross dividend when treated as the top slice of his income falls above the threshold for higher rate income tax.

UK resident taxpayers who are not liable to UK tax on dividends, including pension funds and charities, will not be entitled to claim repayment of the tax credit attaching to dividends paid by mmO₂ plc or BT Group plc, although charities will be entitled to limited compensation in lieu of repayable tax credits until 6 April 2004.

Tax credits on dividends paid by mmO₂ plc or BT Group plc in respect of shares held in PEPs or ISAs will be repayable for dividends paid on or before 5 April 2004.

UK resident corporate shareholders will generally not be subject to corporation tax on dividends paid by mmO₂ plc or BT Group plc. Those shareholders will not be able to claim repayment of tax credits attaching to dividends.

In general, the right of non-UK resident holders of mmO₂ Shares or BT Group Shares to reclaim tax credits attaching to dividend payments will depend upon the terms of any applicable double tax treaty which exists between the jurisdiction in which they are resident and the UK. Other than in exceptional circumstances, the amount of any tax credit that non-UK resident holders of mmO₂ Shares or BT Group Shares will be able to reclaim in respect of any dividend payment will be reduced to nil as a result of the terms of the relevant treaty. A shareholder resident outside the UK may also be subject to foreign taxation on dividend income

under local law. A shareholder who is not resident in the UK should consult his own tax adviser concerning his tax position in respect of dividends received from mmO₂ plc or BT Group plc.

Capital Gains Tax

A subsequent disposal of mmO₂ Shares or BT Group Shares by a shareholder who is resident or, in the case of an individual, ordinarily resident in the UK may, depending on a shareholder's personal circumstances, give rise to a liability to CGT.

A holder of mmO₂ Shares or BT Group Shares who is neither resident nor ordinarily resident in the UK but who carries on a trade, profession or vocation in the UK through a branch or an agency to which the mmO₂ Shares or BT Group Shares are attributable may be subject to CGT on a disposal of such shares.

Individuals who are temporarily non-UK resident, may, in certain circumstances, be subject to tax in respect of gains realised whilst they are not resident in the UK.

Stamp Duty and SDRT

A transfer of, or agreement to transfer, mmO₂ Shares or BT Group Shares will generally be subject to stamp duty or SDRT, at the rate of 0.5 per cent. of the consideration paid (rounded up to the next multiple of £5 in the case of stamp duty). Stamp duty or SDRT is normally the liability of the purchaser or transferee of the mmO₂ Shares or BT Group Shares. An unconditional agreement to transfer such shares will normally give rise to SDRT, at the rate of 0.5 per cent. of the amount or value of the consideration paid for such shares, but such liability will be cancelled, and any SDRT paid refunded, if the agreement is completed by a duly stamped transfer within six years of the agreement having become unconditional.

Where mmO₂ Shares or BT Group Shares are issued or transferred (a) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT will be payable at the higher rate of 1.5 per cent. of the amount or value of the consideration payable, or in certain circumstances, the value of the mmO₂ Shares or BT Group Shares (rounded up to the next multiple of £5 in the case of stamp duty). This liability to stamp duty or SDRT will strictly be for the account of the depositary or clearance service operator or their nominee, as the case may be, but will, in practice, generally be reimbursed by participants in the clearance service or depositary receipt scheme. No such liability will arise as a result of the issue of mmO₂ ADSs under the Scheme. BT Group will pay any such SDRT that arises as a result of the issue of BT Group ADSs under the Demerger. Transfers of shares within the clearance service and transfers of ADSs will not be subject to stamp duty or SDRT (subject to the clearance service not opting for SDRT to apply to such transfers, as set out in the following sentence) provided that any document used to effect such transfer is executed and retained outside the UK. Clearance services may opt, provided certain conditions are satisfied, for the normal rate of stamp duty or SDRT (generally 0.5 per cent. of the consideration paid rounded up to the next multiple of £5 in the case of stamp duty) to apply to issues or transfers of mmO₂ Shares or BT Group Shares into, and to transactions within, such services instead of the higher rate of 1.5 per cent. generally applicable to an issue or a transfer of mmO₂ Shares or BT Group Shares into the clearance service and the exemption from stamp duty and SDRT on transfer of the mmO₂ Shares or BT Group Shares whilst in the service.

Under the CREST system for paperless share transfers, no stamp duty or SDRT will arise on a transfer of shares into the system, unless the transfer into CREST is itself for consideration in money or money's worth, in which case a liability to SDRT will arise, usually at the rate of 0.5 per cent. of the amount or value of the consideration given. Transfers of shares within CREST are generally liable to SDRT (at a rate of 0.5 per cent. of the consideration paid) rather than stamp duty, and SDRT on relevant transactions settled within the system or reported through it for regulatory purposes will be collected and accounted for to the Inland Revenue by CRESTCo.

The above statements are intended as a general guide to the current stamp duty and SDRT position. Certain categories of person are not liable to stamp duty or SDRT and others may be liable at a higher rate. Certain categories of person may, although not primarily liable for tax, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986.

Inheritance and Gift Taxes

The BT Group Shares and the mmO₂ Shares will be, and the BT Group ADSs and the mmO₂ ADSs are likely to be, assets situated in the UK for the purposes of UK inheritance tax. A gift of such assets by, or the death of, an individual holder of such assets might (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax, even if the holder is neither

Part 7: Additional information

domiciled in the UK nor deemed to be domiciled there under certain rules relating to long residence or previous domicile. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift.

2. Netherlands Taxation

The comments below are based on existing Dutch tax law, which is subject to change, possibly with retrospective effect. They are intended only as a general guide and apply only to shareholders who are resident and ordinarily resident for tax purposes in The Netherlands and who hold BT Shares, BT Group Shares or mmO₂ Shares, respectively, as an investment. Persons who are in any doubt about their tax position should consult their personal tax adviser on the specific implications in respect of the Scheme and the Demerger, and their subsequent ownership of the BT Group Shares and mmO₂ Shares.

The summary of certain Dutch taxes set out below is intended only for the following investors:

- (1) individuals who are resident or deemed to be resident in The Netherlands and, with respect to individual income taxation, individuals who opt to be taxed as residents of The Netherlands for the purposes of Dutch taxation and who hold BT Shares, BT Group Shares or mmO₂ Shares, respectively (“Dutch Individuals”), excluding individuals:
 - (a) who derive benefits from the BT Shares, BT Group Shares or mmO₂ Shares that are taxable as benefits from miscellaneous “activities” (*resultaat uit overige werkzaamheden*);
 - (b) for whom the BT Shares, BT Group Shares or mmO₂ Shares or any payment connected therewith may constitute employment income; or
 - (c) who have a substantial interest, or a deemed substantial interest, in BT, BT Group or mmO₂ plc, respectively; and
- (2) corporate entities (including associations which are taxed as corporate entities under Dutch tax law) that are resident or deemed to be resident in The Netherlands for the purposes of Dutch taxation and who invest in BT Shares, BT Group Shares or mmO₂ Shares (“Dutch Corporate Entities”) excluding:
 - (a) corporate entities that are not subject to Dutch corporate income tax;
 - (b) pension funds (*pensioenfondsen*) and other entities that are exempt from Dutch corporate income tax;
 - (c) corporate entities for whom the BT Shares, BT Group Shares or mmO₂ Shares qualify as a participation, the benefits derived from which are exempt under the participation exemption (as laid down in the Dutch Corporate Income Tax Act 1969); and
 - (d) investment institutions (*beleggingsinstellingen*) as defined in the Dutch Corporate Income Tax Act 1969.

Generally, a shareholder will have a substantial interest if he owns alone or together with his partner, whether directly or indirectly, shares, or certain other rights over shares, representing 5 per cent. or more of the total issued and outstanding capital of a company (or the issued and outstanding capital of any class of shares of such company), or rights to acquire shares, whether or not already issued, that represent at any time 5 per cent. or more of the total issued and outstanding capital of the company (or the issued and outstanding capital of any class of shares of the company) or the ownership of certain profit participating certificates that relate to 5 per cent. or more of the annual profit and/or to 5 per cent. or more of the liquidation proceeds of the company. A shareholder will also have a substantial interest if certain relatives (including foster children) of that holder or his partner have a substantial interest in the company. If a holder of shares does not have a substantial interest, he will be deemed to have a substantial interest if a substantial interest (or part of a substantial interest) has been disposed of, or is deemed to have been disposed of, on a non-recognition basis.

The Scheme

Dutch Individuals not engaged or deemed to be engaged in an enterprise

Generally, actual benefits derived under the Scheme by a Dutch Individual holding BT Shares that are not attributable to an enterprise from which he derives profits as an entrepreneur or pursuant to a co-entitlement to the net worth of such enterprise other than as an entrepreneur or a shareholder (a “Dutch Private Individual”) are not subject to Dutch income tax.

Dutch Individuals engaged or deemed to be engaged in an enterprise

Any benefits derived or deemed to be derived under the Scheme by a Dutch Individual holding BT Shares that are attributable to an enterprise from which such Dutch Individual derives profits, whether as an entrepreneur or pursuant to a co-entitlement to the net worth of such enterprise, are generally subject to income tax at statutory rates.

Dutch Corporate Entities

Any benefits derived or deemed to be derived under the Scheme in respect of BT Shares that are held by a Dutch Corporate Entity are generally subject to corporate income tax at statutory rates.

The Demerger

Dutch Individuals not engaged or deemed to be engaged in an enterprise

Generally, actual benefits derived by a Dutch Private Individual from the mmO₂ Shares pursuant to the Demerger are not subject to Dutch income tax.

Dutch Individuals engaged or deemed to be engaged in an enterprise

Any benefits derived or deemed to be derived pursuant to the Demerger by a Dutch Individual holding mmO₂ Shares that are attributable to an enterprise from which such Dutch Individual derives profits, whether as an entrepreneur or pursuant to a co-entitlement to the net worth of such enterprise, are generally subject to income tax at statutory rates.

Dutch Corporate Entities

Any benefits derived or deemed to be derived pursuant to the Demerger in respect of mmO₂ Shares that are held by a Dutch Corporate Entity are generally subject to corporate income tax at statutory rates.

Individual and Corporate Income and Capital Gains Tax

Dutch Individuals not engaged or deemed to be engaged in an enterprise

Generally, a Dutch Private Individual who holds BT Group Shares or mmO₂ Shares will be subject to a fictitious yield tax at a rate of 30 per cent. The tax is calculated on 4 per cent. of the average of the fair market value of the assets and liabilities of the Dutch Private Individual, which includes the BT Group Shares or mmO₂ Shares, at the beginning and at the end of each year (minus a tax-free amount). Actual benefits derived by a Dutch Private Individual from the BT Group Shares or mmO₂ Shares are not subject to Dutch income tax.

Dutch Individuals engaged or deemed to be engaged in an enterprise

Any benefits derived or deemed to be derived by a Dutch Individual who holds BT Group Shares or mmO₂ Shares that are attributable to an enterprise from which such Dutch Individual derives profits, whether as an entrepreneur or pursuant to a co-entitlement to the net worth of such enterprise, are generally subject to income tax at statutory rates.

Dutch Corporate Entities

Any benefits derived or deemed to be derived in respect of BT Group Shares or mmO₂ Shares that are held by a Dutch Corporate Entity are generally subject to corporate income tax at statutory rates.

Gift and Inheritance Taxes

A liability to gift tax will arise in The Netherlands with respect to an acquisition of the BT Group Shares or mmO₂ Shares by way of a gift by a Dutch Individual or a Dutch Corporate Entity. A liability to inheritance tax will arise in The Netherlands with respect to an acquisition or deemed acquisition of the BT Group Shares or mmO₂ Shares by way of an inheritance or bequest on the death of a Dutch Individual.

For the purposes of Dutch gift and inheritance taxes, an individual who holds Dutch nationality will be deemed to be resident in The Netherlands if he has been resident in The Netherlands at any time during the ten years preceding the date of the gift or his death. If in the case of a gift of the BT Group Shares or mmO₂ Shares by an individual who at the time of the gift was a non-resident shareholder, such individual dies within 180 days after the date of the gift while (at the time of his death) being resident or deemed to be resident in The Netherlands, inheritance tax will be due. For the purposes of Dutch gift tax, an individual not holding Dutch nationality will be deemed to be resident in The Netherlands if he has been resident in The Netherlands at any time during the twelve months preceding the date of the gift.

Other Taxes and Duties

No Dutch registration tax, transfer tax, stamp duty or any other similar documentary tax or duty will be payable in The Netherlands in respect of or in connection with the subscription, issue, placement, allotment or delivery of the BT Group Shares or mmO₂ Shares.

See the sections “UK Taxation — Stamp Duty and Stamp Duty Reserve Tax” and “UK Taxation — Stamp Duty and SDRT” in paragraph 1 above for information on potential UK liabilities arising on transfers of BT Group Shares or mmO₂ Shares.

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3. Significant change

- (a) Save as disclosed in the paragraph headed “Recent developments” in Part 1 of this document, there has been no significant change in the financial or trading position of the Group since 30 June 2001, being the date to which BT prepared its last quarterly interim statement.
- (b) Save as set out in paragraph 5 of “Part 1: Key Information” or under “Operating Data for Mobile Businesses” in “Part 2: Selected Financial and Operational Data” of the mmO₂ Summary Particulars, there has been no significant change in the financial or trading position of the mmO₂ Group since 31 March 2001, the date to which the financial information in the Accountants’ Reports on mmO₂ plc and the mmO₂ Group was prepared.

4. Litigation

- (a) There are no legal or arbitration proceedings (including any such proceedings which are pending or threatened of which BT Group is aware) which may have, or have had, during the 12 months prior to the date of this document, a significant effect on the BT Group’s financial position.
- (b) Save as set out in paragraph 10 of Part 10 of the mmO₂ Summary Particulars, there are no legal or arbitration proceedings (including any such proceedings which are pending or threatened of which mmO₂ Group is aware) which may have, or have had, during the 12 months prior to the date of that document, a significant effect on the financial position of the mmO₂ Group.

5. Material and other contracts

- (a) The following contracts (not being contracts entered into in the ordinary course of business) have been entered into in the two years preceding the date of this document by BT or BT Group plc and are, or may be, material to that Group or have been entered into by BT or BT Group plc or any other members of the BT Group and contain any provision under which any of them has any obligations or entitlements which are, or may be, material to the BT Group:

(i) Agreements in connection with the Demerger

Demerger Agreement

On 18 September 2001, BT Group plc, BT and mmO₂ plc entered into a demerger agreement (the “Demerger Agreement”) which sets out the obligations of the parties in implementing the steps to achieve the Demerger.

Under this agreement, subject to the satisfaction of a number of conditions, including the passing of the resolution to approve the Demerger Dividend at the EGM and the board of mmO₂ plc approving the Demerger as being in the best interests of the Group, mmO₂ plc has agreed to transfer BT Group Investments to BT Group plc and, in exchange for such transfer, BT Group plc has agreed to allot and issue (subject only to Admission of the BT Group Shares) BT Group Shares to the mmO₂ Shareholders in satisfaction of the Demerger Dividend such that each mmO₂ Shareholder at the Demerger Record Time will be entitled to receive one BT Group Share for each mmO₂ Share then held. No party to the Demerger Agreement has given any representation, warranty or indemnity to the others and no party has any right to rescind the agreement.

Separation Agreement

On 18 September 2001, BT, BT Group plc, mmO₂ plc and O₂ Limited entered into a separation agreement (the “Separation Agreement”), which will cease to be effective if the Demerger does not become unconditional by 31 March 2002. Under the Separation Agreement, it has been agreed that mmO₂ will have net debt (excluding trading balances) of approximately £500 million on the Demerger Effective Date, including loan indebtedness to BT Group. BT Group plc and mmO₂ plc have agreed that, immediately following the Demerger being implemented, the mmO₂ Group will repay the outstanding inter-company debt (other than trading balances) owed to the BT Group. Trading balances owed between the BT Group and the mmO₂ Group will be settled in the ordinary course of business in accordance with the trading agreements governing those arrangements.

Following the Demerger becoming effective, BT Group plc and mmO₂ plc have also agreed to allocate certain assets and liabilities and rights and obligations, in each case relating to the mmO₂ business, between their respective groups. mmO₂ plc will be responsible for insuring the ongoing activities of its business following the Demerger becoming effective.

The allocation of assets and liabilities in the Separation Agreement supplements the asset and share transfer agreements entered into between members of the BT Group and the mmO₂ Group to effect the internal reorganisation which took place to create the mmO₂ Group as a distinct sub-group of the Group. The Separation Agreement provides that the parties shall use all

reasonable endeavours to procure the transfer to the mmO₂ Group of any assets or liabilities relating exclusively to the mmO₂ businesses and the transfer to the BT Group of any assets or liabilities relating exclusively to the BT Group businesses which have not been transferred to the mmO₂ Group or the BT Group, as appropriate, by the date the Demerger becomes effective. However, this arrangement is subject to, and does not seek to change, the way in which BT and O₂ Limited have agreed to deal in the internal reorganisation, with certain identifiable assets, such as intellectual property rights.

In addition, under the Separation Agreement, BT Group plc and mmO₂ plc have agreed, subject to certain limited exceptions, to indemnify each other against certain actual and contingent liabilities to the extent arising directly or indirectly out of their respective businesses. The purpose of these indemnities is to ensure effective implementation of the principles on which it has been agreed that assets and liabilities should be allocated between BT Group plc and mmO₂ plc. Furthermore, BT Group plc and mmO₂ plc have agreed to indemnify one another against certain liabilities arising from certain incomplete, false or misleading information provided by either of BT Group plc or mmO₂ plc, or their respective groups, for inclusion in public documents. Such indemnities apply indefinitely and are not subject to any financial limit.

The Separation Agreement contains no representations or warranties by any party.

mmO₂ plc has agreed that, after the Demerger has become effective, it will seek to obtain a full and effective release of each relevant member of the BT Group from any guarantees, undertakings and indemnities which such BT Group member may have given in respect of the mmO₂ Group, including an undertaking of support in respect of Viag Interkom's licence obligations.

When Viag Interkom acquired both its GSM and UMTS licences in Germany, BT undertook to Viag Interkom to provide it with financial support for the roll-out and operation of Viag Interkom's GSM and UMTS networks pursuant to these licences in proportion to its then shareholding in Viag Interkom. At the time BT achieved full control of Viag Interkom, it amended those undertakings to reflect its 100 per cent. ownership. mmO₂ plc will give corresponding undertakings of financial support in respect of Viag Interkom's outstanding licence obligations as are appropriate to replace those given by BT.

Each of BT Group plc and mmO₂ plc has agreed to make certain information available to the other in so far as it is reasonably necessary for the other's commercial affairs and, in particular, for the purpose of preparing financial statements or complying with regulatory requirements.

Under the Separation Agreement, BT Group plc and mmO₂ plc have agreed that certain costs of the Demerger shall be apportioned between them as they may agree in writing.

The Separation Agreement also sets out an informal, non-binding dispute resolution procedure which BT Group plc and mmO₂ plc have agreed shall be applied to the resolution of key disputes which may arise between them and their respective groups in connection with their continuing relationship and the Demerger. These arrangements are intended to limit the time and costs involved in resolving such disputes that may arise between the parties before recourse to the courts or any other chosen binding resolution procedure.

The Separation Agreement also sets out the parties' agreement for the separation of the pensions arrangements of the BT Group and the mmO₂ Group. These arrangements are described in more detail below.

Under a separate arrangement, BT Group plc and mmO₂ plc have agreed that mmO₂ plc will pay the remaining amount of approximately US\$20 million due in respect of the 1,500,000 non-voting shares in Esat Digifone Limited (now Digifone mmO₂ Limited) acquired in April 2000.

Pensions Arrangements

The Separation Agreement described above sets out in a schedule the terms on which mmO₂ plc and BT have agreed to deal with the pensions arrangements for the BT Group and the mmO₂ Group affected by the Demerger. The pensions schedule provides for participation by mmO₂ plc and its subsidiaries in the BT Pension Scheme and other BT pensions arrangements to continue in respect of their employees for a maximum period of twelve months after the Demerger Effective Date.

During the participation period, mmO₂ plc will contribute in respect of employees who are members of the BT Pension Scheme at the rate of 11.6 per cent. of such employees' pensionable salaries and employees will continue to contribute 6 per cent. of pensionable salary.

Part 7: Additional information

The pensions schedule to the Separation Agreement also provides for the making of a transfer payment, subject to certain conditions, following the end of the participation period in respect of those members of the BT Pension Scheme who consent to the transfer of their past service benefits from the BT Pension Scheme to a new pension arrangement to be established by mmO₂ plc. mmO₂ plc intends that those arrangements will provide benefits which are broadly equivalent in actuarial value to those accruing under the BT Pension Scheme. The pension schedule also provide that the transfer payment will be calculated on a past service reserve basis (that is, based on accrued rights with an allowance for projected future salary increases) in accordance with actuarial methods and assumptions set out in the pensions schedule. Under the pensions schedule BT agrees to use its best endeavours to procure the payment by the trustees of the BT Pension Scheme of the transfer payment. If the transfer amount is not paid in full by the trustees, then BT is obliged to make up the shortfall up to a maximum of £30 million. Under the pensions schedule, mmO₂ will be indemnified by BT against any liability it has to the BT Pension Scheme following the Demerger (other than liability to continue to make ordinary and certain additional contributions for the duration of the participation period as set out in the pensions schedule) and in relation to any potential past service liability for the non-recognition of employees, part-time service and non-compliance with any obligation to replicate civil service benefits.

Tax Agreement

On 18 September 2001, BT Group plc and mmO₂ plc entered into a tax agreement (the “Tax Agreement”) which will cease to be effective if the Demerger Agreement does not become unconditional before 31 March 2002. The Tax Agreement contains provisions relating to, among other things, the allocation of tax liabilities between the BT Group and the mmO₂ Group, the manner in which the groups will prepare and agree tax computations and returns, the basis on which certain claims and elections can be made (including the surrender of tax reliefs from one group to the other and the ability of the BT Group to “roll over” capital gains into assets owned by the mmO₂ Group), the conduct of negotiations and disputes with the tax authorities, the exchange of information relating to their tax affairs and certain other administrative matters.

The two general principles underlying the Tax Agreement are that:

- each group company shall be responsible for its own tax liabilities, whether arising before, after or as a result of the Demerger becoming effective; and
- the two groups shall co-operate to try to minimise the aggregate tax liabilities of members of the groups for accounting periods beginning before the Demerger is effected.

There are certain limited exceptions to these general principles.

BT Group plc and mmO₂ plc have agreed that they shall respectively be responsible for the preparation of the tax computations and returns for the members of their respective groups for all periods both before and after the Demerger becoming effective, and deal with all negotiations, correspondence and agreements with the tax authorities with respect to those computations and returns, subject to certain limited exceptions. mmO₂ plc has agreed to procure the surrender of losses to members of the BT Group and to permit certain capital gains realised by members of the BT Group to be rolled over for UK tax purposes into certain assets of the mmO₂ Group.

The parties have agreed that each group shall be responsible for conducting any negotiations or disputes with the tax authorities relating to the tax liabilities of that group, subject to certain limited exceptions.

Framework Agreement

BT entered into a framework agreement (the “Framework Agreement”) on 31 May 2001 with O₂ Limited which prescribes that, prior to and following the Demerger, each will deal with the other, and will procure that their respective subsidiaries deal with each other on an arm’s length basis in the UK, on commercial terms and that each will treat the other and its subsidiaries as independent trading entities. The Framework Agreement also prescribes certain terms and conditions which apply across the various UK trading and shared services agreements between BT and its subsidiaries and O₂ Limited and its subsidiaries described in this paragraph 5, subject to certain exceptions. For the purposes of the Framework Agreement, and those trading and shared services agreements, the UK includes the Isle of Man.

If there is a conflict between the provisions of a trading or shared services agreement in the UK and the Framework Agreement, the trading or shared services agreement will take precedence.

The Framework Agreement is effective from 31 May 2001 and for an initial period of 12 months, terminable by BT or by O₂ Limited on three months' written notice taking effect after the initial 12 month period. Expiry of the Framework Agreement will not affect the continuance of any trading agreement entered into pursuant to it. However, over time the mmO₂ Group intends to reduce the importance of its relationship with the BT Group.

No monetary consideration is payable under this agreement. Neither party to it gives any representation, warranty or indemnity.

The terms and conditions of the framework agreement do not apply to agreements between BT and O₂ Limited or their respective subsidiaries for network services and telecommunications services, which are and will continue to be provided, where relevant, on standard arm's length terms and conditions that are applicable to other recipients of such services, or to arrangements for the use of BT properties by the mmO₂ Group, which are addressed separately and for which the provisions of the Framework Agreement are not appropriate.

Framework agreements have not been entered into by members of the mmO₂ Group in relation to its business in Germany, The Netherlands and Ireland. Nevertheless, their trading arrangements with the BT Group in these countries are and will continue to be on arm's length terms.

Wireless Trading Agreement

This agreement was entered into by BT and BT Cellnet on 14 September 2001. It provides that BT will continue to promote exclusively BT Cellnet's mobile telecommunications products and services to the business market in the UK. This agreement is for an initial term of three years and may be terminated by either party if certain performance targets are not met by the other. Either party may also terminate the agreement upon, amongst other things, material or persistent breach or insolvency proceedings. Either party may also terminate the agreement upon 12 months' notice following a change of control of the other party.

BT Cellnet will pay BT a percentage of the revenue it receives for sales to business customers introduced by BT. BT may also buy mobile network capacity from BT Cellnet at wholesale prices in order to provide communication solutions to its own business customers. BT has undertaken to ensure that a specified minimum level of revenue will be generated for BT Cellnet by sales through BT to business customers will result from business customers contracting directly with BT Cellnet through BT as an agent rather than through wholesale sales by BT Cellnet to BT. Subject to certain limited exceptions, BT has agreed not to solicit business customers which have contracts with BT Cellnet at the time the agreement was entered into.

Furthermore, for a period of three years, in the UK, BT will not, subject to certain specified exceptions, create its own mobile telecommunications network or virtual mobile telecommunications network or incur significant costs in the provision or sale of major wireless billing systems or major wireless network products for the purpose of providing wireless services to business customers. BT is permitted, however, amongst other things, to continue to provide network building services, outsourcing services, network capacity services to wholesale customers, research and development services, systems integration and management of infrastructure services.

BT is permitted to sell competing mobile services to consumers and to both business customers and consumers through certain marketing channels targeted at consumers, including BT's internet domains. In specified circumstances, BT may sell competing mobile services to business customers which have requested a service other than BT Cellnet's, provided BT has offered BT Cellnet the opportunity to offer a service to such a customer.

Each party indemnifies the other for liability arising from breach of this agreement, and any tortious act or omission. Other than in respect of liability arising from infringement of intellectual property rights, death or personal injury due to negligence or failure to pay charges properly due under this agreement, the liability of each party is limited in any annual period to £5 million.

(ii) Asset sale and purchase agreements

Viag Interkom

On 16 August 2000, BT, through its wholly-owned subsidiary BT Interkom Verwaltungs GmbH, entered into option agreements with each of its partners in the Viag Interkom joint venture, E.ON AG and Telenor A.S. giving BT the option to purchase, and the other partners the right to sell, their interests in the Viag Interkom joint venture which holds a third generation mobile telecommunications licence in Germany.

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On 29 December 2000, Telenor group exercised its option pursuant to which BT Interkom Verwaltungs GmbH purchased Telenor A.S.'s 10 per cent. share of the venture on 18 January 2001. On 15 January 2001, E.ON AG exercised its option pursuant to which BT Interkom Verwaltungs GmbH purchased E.ON AG's 45 per cent. share of the venture on 19 February 2001.

The purchase prices for E.ON AG's 45 per cent. share and Telenor AS's 10 per cent. share of the venture were Euro 7.25 billion and Euro 1.61 billion respectively.

The agreement with E.ON includes the right for BT to continue to use the name "VIAG" or "Viag Interkom" for three years, following which they may enter into good faith negotiations for its continued use. It also contains covenants restricting E.ON's rights to compete with Viag Interkom GmbH & Co for twelve months.

The agreement with Telenor contains certain indemnities granted by BT to Telenor.

Japan

A sale and purchase agreement dated 2 May 2001 between BT, Tadpole BV, a subsidiary of BT, Vodafone Group plc ("Vodafone") and a subsidiary of Vodafone, under which the subsidiary of BT agreed to sell three subsidiaries which held its interests in Japan Telecom Co., Ltd. ("JT"), J-Phone Communications Co., Ltd. ("JPC"), J-Phone Central Co., Ltd ("JC"), J-Phone East Co, Ltd. ("JEC") and J-Phone West Co., Ltd. ("JWC"). JT is one of Japan's leading telecommunications companies and parent of JPC, which in turn has controlling interests in the three regional J-Phone wireless operating companies, JC, JEC and JWC. The consideration for the transaction comprised a cash payment of £3.7 billion, and the assumption by Vodafone of £782 million of BT debt guarantees in favour of JT. The sale of the subsidiaries which held BT's interests in JT and JPC (for £3.05 billion) was completed on 1 June 2001. The sale of BT's interests in JEC and JWC for the Euro equivalent of £650 million was completed on 12 July 2001, following the exercise of certain options over shares in JC, JEC and JWC, with the exercise price of approximately £380 million having been paid by BT. The agreement contains certain standard warranties and indemnities in favour of Vodafone. These largely expire on 30 June 2002, although certain limited tax and title warranties survive indefinitely.

Spain

A sale and purchase agreement dated 2 May 2001 between BT (Netherlands) Holdings BV, a subsidiary of BT, and Vodafone under which the BT subsidiary agreed to sell its entire interest in Airtel Móvil, S.A. to Vodafone. The sale was completed on 29 June 2001 for a consideration of £1.1 billion (paid in Euros).

Yell

On 25 May 2001 the following agreements were entered into, under which BT agreed to sell its classified advertising directory businesses in the UK and the USA:

- (i) umbrella agreement between Yell Limited, BT Holdings Ltd, Yellow Pages BV, Marchprobe Ltd, Castaim Ltd, Yasmin Two (US) Inc and BT;
- (ii) UK share sale agreement between BT Holdings Ltd and Marchprobe Ltd under which BT Holdings Ltd agreed to sell the share capital of Yellow Pages Sales Ltd to Marchprobe Ltd;
- (iii) UK business sale agreement between Yell Ltd, Castaim Ltd and Yasmin Two (US) Inc under which Yell Ltd agreed to sell Yell Ltd's business and assets to Castaim Ltd and to sell Yell Ltd's US intellectual property rights to Yasmin Two (US) Inc; and
- (iv) US share sale agreement between Yellow Pages BV and Yasmin Two (US) Inc under which Yellow Pages BV agreed to sell the share capital of Yellow Book USA Inc shares to Yasmin Two (US) Inc.

The umbrella agreement sets out the common terms which apply to the UK share sale agreement, the UK business sale agreement and the US share sale agreement. The umbrella agreement contains covenants restricting any member of the Group from carrying on a competing printed classified directories business for twelve months from completion.

The share sale and business agreements contain standard warranties and indemnities in favour of Marchprobe Ltd, Castaim Ltd and Yasmin Two (US) Inc. The warranties expire on 30 June 2002. A disclosure letter was delivered to Marchprobe Ltd, Castaim Ltd and Yasmin Two (US) Inc on signing.

As part of the consideration under the UK business sale agreement Castaim Ltd also assumed responsibility for certain liabilities and obligations of the Yell business.

On, or immediately prior to, completion of the sale ("Completion"), the following agreements were entered into:

- (i) First amending agreement to the umbrella agreement between Yell Limited, BT Holdings Ltd, Yellow Pages BV, Marchprobe Ltd, Castaim Ltd, Yasmin Two (US) Inc, BT and Yellow Book USA, Inc;
- (ii) Second amending agreement to the umbrella agreement between Yell Limited, BT Holdings Ltd, Yellow Pages BV, Marchprobe Ltd, Castaim Ltd, Yasmin Two (US) Inc and BT; and
- (iii) Administration and services agreement between BT and Castaim Ltd concerning the provision of certain services and facilities to the printed classified directories business for a period of six months from Completion.

The sale of Yell was completed on 22 June 2001 for a consideration of £2.14 billion, comprised of (i) £2 million as consideration for the issued shares of Yellow Pages Sales Ltd; (ii) £1,288 million in cash plus £100 million in interest bearing vendor loan notes and £100 million in deferred consideration (subject to reduction on ascertainment of the net assets) as consideration for the assets of Yell Ltd; (iii) £1 as consideration for the US intellectual property rights; and (iv) £650 million as consideration for the issued shares of Yellow Book USA, Inc (subject to adjustment in respect of certain intra-group indebtedness and pursuant to the terms of the first amending agreement).

Following Completion, Yell Ltd agreed a net asset adjustment with Castaim Ltd in respect of the assets of Yell Ltd, and Yellow Pages BV agreed a net asset adjustment with Yasmin Two (US) Inc in respect of Yellow Book USA, Inc, which together resulted in the total purchase consideration received being reduced by approximately £140 million.

- (b) The contracts referred to in paragraph 9 of Part 10 of the mmO₂ Summary Particulars (not being contracts entered into in the ordinary course of business) have been entered into in the two years preceding the date of this document by mmO₂ plc or any other member of the mmO₂ Group and are, or may be, material to that group or have been entered into by mmO₂ plc or another member of the mmO₂ Group and contain any provision under which any member of the mmO₂ Group has any obligations or entitlements which are, or may be, material to the mmO₂ Group.
- (c) In addition to the Wireless Trading Agreement referred to in paragraph (a) above and the arrangements in relation to Airwave described in paragraph 10 of Part 3, the key trading and shared services agreements that the members of the BT Group have agreed with members of the mmO₂ Group may be summarised as follows:

Trading Agreements

IT Master Services Agreement. BT entered into an agreement with O₂ Limited and BT Cellnet on 18 September 2001, under which BT has agreed to provide O₂ Limited and the other members of the mmO₂ Group in the UK with IT services of a project nature, such as systems integration, and with IT services of a continuous nature, such as desktop support, web hosting, billing services, consultancy services and other support services. The UK mmO₂ Group companies will continue to receive these services from different divisions within the BT Group. The IT Master Agreement is designed to harmonise the legal structure for the provision by the different divisions within the BT Group of IT services to such mmO₂ Group companies. In general, BT or members of the mmO₂ Group may terminate services of a continuous nature on industry standard notice periods. However, BT has, in respect of certain key services, agreed to use all reasonable endeavours to ensure that the UK mmO₂ Group companies continue to receive from the BT Group, on an arm's length basis, the IT services that are provided to such companies before the Demerger for at least a transitional period.

Telecommunications Services. In the UK, Germany, The Netherlands and Ireland there are a series of agreements between members of the mmO₂ Group and members of the BT Group governing the provision of telecommunications services between them such as voice, data and telephony services. These agreements vary in term but, in general, in the UK such services are supplied on standard published terms and conditions. Elsewhere, agreements are based on terms and conditions generally applicable to such services offered by the relevant party.

Network Agreements. In the UK, Germany, The Netherlands and Ireland there are a series of network agreements between members of the BT Group and the mmO₂ Group governing the provision of operator to operator services including, for example, the provision of private circuits, frame relay services and interconnection services. These agreements vary in term but, in general, in the UK interconnection is on BT's standard published terms for interconnection. Elsewhere, agreements are based on terms and conditions generally applicable to such services offered by the relevant party.

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Field Operation Services and Maintenance Agreements. In the UK, BT has entered into several agreements with certain members of the mmO₂ Group that provide that BT will maintain cell site equipment and the core network switching infrastructure relating to various networks in the UK, including BT Cellnet's principal network and paging network. These agreements vary in term. The most significant of these agreements, relating to BT Cellnet's principal network, has a term of five years, terminable on between three and twelve months' notice, depending on the circumstances.

PMP (Point to Multi-Point) Frequency Usage Agreement and Side Letters. In Germany, Viag Interkom, a member of the mmO₂ Group, holds licences for the use of local loop frequencies. For regulatory reasons, the licences for use of such frequencies, which are used by the BT Ignite fixed-line business rather than by Viag Interkom's mobile business, cannot be transferred to BT Ignite. For this reason, Viag Interkom has granted to BT Ignite an irrevocable and exclusive right to exploit such frequencies as if BT Ignite, to the extent permitted by law, were the licensee. The agreement provides for a penalty to be paid by Viag Interkom to BT Ignite if, other than as a result of acts or omissions by BT Ignite, or as a result of lawful governmental, regulatory or legal restrictions or requirements, any of these frequencies or licences are revoked and BT Ignite is prevented from carrying on its services.

The agreement will terminate automatically in the event that all of the frequencies and frequency licences are lawfully transferred and/or assigned to BT Ignite. Viag Interkom has agreed with BT Ignite to seek consent from the relevant German regulatory authority to the transfer of these frequencies and licences from Viag Interkom to BT Ignite. In addition, Viag Interkom has agreed to provide BT Ignite with consultancy services relating to the management of existing PMP sites and, at BT Ignite's request, any future PMP sites. BT Ignite may terminate the PMP Frequency Usage Agreement in whole or with respect to a particular frequency, by giving Viag Interkom four weeks' notice of termination.

Technical Services Agreement. O₂ Limited entered into a framework agreement with BT (trading as BTextact Technologies) on 18 September 2001 under which O₂ Limited may request BTextact Technologies to provide mmO₂ Group companies with research, development and/or consultancy services in accordance with individual work packages agreed from time to time between O₂ Limited and BT. The agreement has a term of three years, although work packages may be negotiated for a longer period and would continue to be governed by the agreement. The agreement is on arm's length terms. Charges are agreed as and when the commercial terms of individual work packages are agreed. Either party may terminate the agreement or a work package if the other commits a material breach or upon insolvency related events affecting the other party.

Shared Services Agreements

Administrative Services. In the UK, Germany and The Netherlands, members of the BT Group have entered into a number of agreements with members of the mmO₂ Group under which such BT Group members will provide the mmO₂ Group, following the Demerger, and in some cases already provide the mmO₂ Group, with many of the administrative non-network services that it receives as part of the Group before the Demerger. The services covered by these agreements include, for example, services in respect of property management, payroll, customer billing and human resources. Administrative services required by Genie in jurisdictions other than the UK, Germany and The Netherlands are provided by the BT Group under the UK administrative services agreement.

In addition, in the UK, Germany and The Netherlands, members of the mmO₂ Group provide certain administrative services to the BT Group.

It is anticipated that most services provided under these agreements will be provided by the BT Group to members of the mmO₂ Group and vice versa on a transitional basis only. However, some services are expected to continue to be provided for a longer period until terminated in accordance with the relevant administrative services agreement. For example, in Germany, BT Ignite will provide risk management services in respect of mmO₂'s web-based Geographic Information Systems for an indefinite period, subject to termination on one month's notice.

Site Sharing and Occupancy Licences. In the UK, Ireland and Germany there are agreements between members of the BT Group and members of the mmO₂ Group that provide members of the mmO₂ Group with access to and use of office premises and technical equipment premises and, in the UK and Ireland, cell site premises, which are currently owned or leased by the BT Group, but occupied by members of the mmO₂ Group.

In the UK, around 9 per cent. of the cell sites which form part of BT Cellnet's principal network are on premises owned or leased by BT.

In addition, in Ireland the site sharing agreement between the BT Group and the mmO₂ Group provides for the BT Group to access and use technical equipment sites currently leased by mmO₂.

The rent payable in respect of each of the properties covered by these agreements varies depending on the premises occupied. However, in each case the level of rent is market rate. The term of each of these agreements varies according to use.

Trade Marks, Domain Names and Branding. O₂ Limited and BT Cellnet entered into a Trade Mark and Domain Name Licence Agreement with BT on 18 September 2001. Under this agreement, mmO₂'s UK businesses and Telfort Mobiel's business in the Netherlands have been granted the right until 31 March 2003 to continue to use the letters "BT" (including the stylised "BT" corporate logo), the BT full piper logo and the BT half piper logo to the extent that mmO₂ uses such names and logos immediately before the Demerger, except in respect of fixed line telephony goods and services and all other hardware and telecommunications equipment, and certain internet related services. BT is only entitled to terminate the licence in limited circumstances, such as a breach of the licence by an mmO₂ Group member, or where such mmO₂ Group member is affected by insolvency related proceedings. In any event, the mmO₂ Group is obliged to phase out all use (including use in domain names) of the letters "BT" (including the stylised "BT" corporate logo), the BT full piper and the BT half piper by 31 March 2003.

BT, O₂ Limited and BT Cellnet have provided various undertakings in relation to the way in which they use and maintain in force the licensed marks and domain names. On termination of the licence, O₂ Limited and BT Cellnet are required to transfer to BT any domain names still in possession of the mmO₂ Group that contain the letters "bt". On termination of the licence, in order to avoid confusion in the market place, BT, O₂ Limited and BT Cellnet will seek to agree, on a case by case basis, a reasonable period of time (not exceeding two years) during which BT may not re-use (with and/or without the "bt" prefix) certain domain names and trade marks containing the "bt" prefix which were previously owned by, or licensed under the Trade Mark and Domain Name Licence, to a member of the mmO₂ Group. On termination of the licence, the mmO₂ Group shall keep its common law and registered trade mark rights in the brands that it owns such as Cellnet.

The licence is royalty free during its term, provided that the relevant mmO₂ Group member complies with its terms. BT has a limited right to charge royalties in the event that the relevant mmO₂ Group member does not meet certain quality standards.

Until expiration of the licence, BT has agreed that the BT Group will not use or licence the letters "BT" (including the stylised "BT" corporate logo), the BT full piper logo or the BT half piper logo in respect of mobile handsets, SIM cards or the provision of mobile airtime to consumers in the UK, except that BT may use such brands in these areas alongside other mobile network operators (as part of a co-branding exercise) and as part of a bundled offering to UK consumers.

In Ireland, the mmO₂ Group has a non-exclusive licence from the BT Group to use the "Esat" mark. The BT Group may terminate this licence on six months' notice. The mmO₂ Group is confident that it would be able to rebrand its products and services in Ireland in such a period.

Intellectual Property Licence. O₂ Limited and BT Cellnet have a non-exclusive royalty-free licence from BT permitting them and the other mmO₂ Group members, to continue to use any and all patents, copyright, unregistered design rights, database rights and know how, which BT owns and which the mmO₂ Group uses in connection with its world-wide businesses as they are carried on immediately prior to the Demerger to the extent that such rights are used in those businesses immediately prior to the Demerger. BT is only entitled to terminate the licence following an insolvency related event affecting O₂ Limited.

6. Summary of conditions of use of internet proxy appointment and voting instruction service

Introduction

This paragraph summarises certain material conditions governing the use, by BT Shareholders and participants in the BT Employee Share Ownership Scheme and the BT EasyShare Service, of Lloyds TSB Registrars' internet proxy appointment and voting instruction services (the "Internet Service") in connection with the Court Meeting and EGM. The conditions of use are legally binding and should be read carefully before using the Internet Service.

The conditions of use of the Internet Service are set out in full on the website, www.sharevote.co.uk, and may be read by logging on to that site and entering the Voting Reference Number printed on the Forms of Proxy or other voting forms. Separate (but similar) conditions of use apply to use of the Internet Service by BT Shareholders and participants in the BT Employee Share Ownership Scheme and BT EasyShare Service.

Confirmations

When the Voting Reference Number is entered and the icon "GO" is clicked the user will be deemed to confirm that he, she or it:

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- (i) is registering to use the Internet Service;
- (ii) has the right to vote his, her or its shares; and
- (iii) has read, understood and agreed to be bound by the relevant conditions of use.

Voting Reference Number and security

A user of the Internet Service must take all reasonable steps to ensure that his, her or its Voting Reference Number is kept secret and not disclosed to someone else unless the user wants that other person to use the Voting Reference Number to access the Internet Service on their behalf and has given them a power of attorney to do so. Corporate shareholders holding shares on behalf of clients should note that divulging their Voting Reference Number to one of their clients may enable that client to use the Internet Service in respect of the corporate shareholder's entire holding. Users of the Internet Service will be given a limited number of attempts to enter their Voting Reference Numbers following which their right to use the Internet Service will be withdrawn. Lloyds TSB Registrars will not accept any message or instruction containing a computer virus.

Authority given by use of the Voting Reference Number

Lloyds TSB Registrars (and/or Lloyds TSB Registrars Corporate Nominee Limited and/or BT Employee Shares Trustees Limited and/or the Company) will be entitled to act on instructions given using the Internet Service in connection with the Voting Reference Number without obtaining any further written or other confirmation, even if those instructions are not actually given or authorised by a BT Shareholder or participant in the BT Employee Share Ownership Scheme or BT EasyShare Service or duly authorised attorney. However, written confirmation of appointments may be insisted upon and additional security checks made where it is reasonably believed they are justified.

Availability of Internet Service

Lloyds TSB Registrars will make all reasonable efforts to ensure the Internet Service is available during the times specified in the voting documentation but routine maintenance requirements, excess demand and circumstances beyond its control may mean this is not possible.

Limitation of liability

Neither Lloyds TSB Registrars nor the Company are liable for any direct loss or damage resulting from making the Internet Service available, unless directly caused by their negligence, fraud or deliberate default. Lloyds TSB Registrars' and the Company's liability for consequential and indirect losses is excluded (except in the case of fraud). Lloyds TSB Registrars and/or Lloyds TSB Registrars Corporate Nominee Limited and/or BT Employee Shares Trustees Limited and/or the Company will have no liability for instructions accepted via the Internet Service in good faith. Neither Lloyds TSB Registrars nor the Company will be liable for failing to act on any message given to Lloyds TSB Registrars using the Internet Service which Lloyds TSB Registrars do not receive.

Record keeping

Lloyds TSB Registrars may record all telephone conversations in connection with the Internet Service and keep the recordings for at least one year. Records will be kept of all proxy appointments and other instructions given via the Internet Service for one year as well.

E-mail addresses

If a user of the Internet Service provides Lloyds TSB Registrars with e-mail contact details when using the Internet Service, Lloyds TSB Registrars may use those details in order to contact the user for any purpose that is legitimately connected with the user's shares. Lloyds TSB Registrars may also give the e-mail contact details to the Company for this purpose.

Software and hardware

It is the responsibility of users of the Internet Service to ensure that any software supplied to them when they access the Internet Service is compatible with their equipment and any software on their equipment. Users must take all reasonably practicable measures to ensure their equipment is free of any computer virus (in particular because the Internet Service is accessible via the internet over which Lloyds TSB Registrars has no control) and is adequately maintained in every way.

Users of the Internet Service must not access the Internet Service using any computer or other device they do not own unless they have first obtained the owner's permission and must compensate Lloyds TSB Registrars for any loss it may suffer as a result of

not obtaining such permission. Users of the Internet Service are responsible for their use of any internet access services through which they access the Internet Service.

Users of the Internet Service will be granted a non-exclusive, non-transferable, temporary licence to use software supplied to them when they access the Internet Service for the purpose of accessing the Internet Service, and for no other purpose. If the Internet Service is accessed from a country outside the United Kingdom, the user is responsible for complying with the local laws of that country and must compensate Lloyds TSB Registrars for any loss they may suffer as a result of the user's failure to comply with this obligation.

An appointment or instruction given using the Internet Service will be treated as received when it is recorded by Lloyds TSB Registrars' server in a way capable of being reproduced in legible form.

7. Conditions of use of the telephone proxy appointment and voting instruction service

Introduction

This paragraph sets out the conditions on which Lloyds TSB Registrars (a trading name of Lloyds TSB Bank plc) will, on behalf of the Company, allow the use, by BT Shareholders and participants in the BT Employee Share Ownership Scheme and the BT EasyShare Service, of its telephone proxy appointment and voting instruction services (the "Telephone Service") in connection with the Court Meeting and EGM. The conditions of use set out below in this paragraph 7 are legally binding and should be read carefully before using the Telephone Service.

Confirmations

When the Voting Reference Number is given to the telephone operator, the user will be deemed to confirm that he, she or it:

- (i) is registering to use the Telephone Service;
- (ii) has the right to vote his, her or its shares (in the case of BT Shareholders) and/or give instructions to Lloyds TSB Registrars Corporate Nominee Limited (in the case of participants in the BT EasyShare Service) and/or give instructions to BT Employee Shares Trustees Limited (in the case of the BT Employee Share Ownership Scheme); and
- (iii) has read, understood and agreed to be bound by these conditions of use.

Voting Reference Number and security

A user of the Telephone Service must take all reasonable steps to ensure that his, her or its Voting Reference Number (being the 24 digit reference number provided on the hard copy voting forms) is kept secret and not disclosed to someone else unless the user wants that other person to use the Voting Reference Number to access the Telephone Service on their behalf and has given them a power of attorney to do so. Corporate shareholders holding shares on behalf of clients should note that divulging their Voting Reference Number to a client may enable that client to use the Telephone Service in respect of the corporate shareholder's entire holding.

Authority given by use of the Voting Reference Number

Lloyds TSB Registrars (and/or Lloyds TSB Registrars Corporate Nominee Limited and/or BT Employee Shares Trustees Limited and/or the Company) will be entitled to act on instructions given using the Telephone Service in connection with the Voting Reference Number without obtaining any further written or other confirmation, even if those instructions are not actually given or authorised by a BT Shareholder or participant in the BT Employee Share Ownership Scheme or BT EasyShare Service or duly authorised attorney. However, written confirmation of appointments may be insisted upon and additional security checks made where it is reasonably believed they are justified.

Availability of Telephone Service

Lloyds TSB Registrars will make all reasonable efforts to ensure the Telephone Service is available during the times specified in the voting documentation but circumstances beyond its control may mean this is not possible.

Limitation of liability

Neither Lloyds TSB Registrars nor the Company are liable for any direct loss or damage resulting from making the Telephone Service available, unless directly caused by their negligence, fraud or deliberate default. Lloyds TSB Registrars' and the Company's liability for consequential and indirect losses is excluded (except in the case of fraud). Lloyds TSB Registrars and/or Lloyds TSB Registrars Corporate Nominee Limited and/or BT Employee Shares Trustees Limited and/or the Company will have no liability for instructions accepted via the Telephone Service in good faith.

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Record keeping

Lloyds TSB Registrars may record all telephone conversations in connection with the Telephone Service and keep the recordings for at least one year. Records will also be kept of all proxy appointments and other instructions given via the Telephone Service for one year.

Law

These conditions of use will be governed by English law and a user of the Telephone Service and Lloyds TSB Registrars (for themselves and on behalf of the Company) submits to the jurisdiction of the English Courts in connection with any dispute.

8. Working capital

- (a) The Company is of the opinion that, following the Proposals becoming effective, BT Group has sufficient working capital for its present requirements, that is, for at least the next twelve months from the date of the publication of this document.
- (b) A statement in relation to the working capital of the mmO₂ Group is set out in paragraph 11 of Part 10 of the mmO₂ Summary Particulars.

9. Consents

- (a) Cazenove has given and has not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which they appear.
- (b) PricewaterhouseCoopers have given and not withdrawn their written consent to the inclusion in this document of their name and the references to it in the form and context in which they appear.
- (c) The Law Debenture Trust Corporation p.l.c. has given and has not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which they appear.

10. Miscellaneous

- (a) The total costs and expenses of, or incidental to, the Proposals are estimated to be approximately £84 million (exclusive of VAT), of which £83 million is payable by BT and £1 million is payable by mmO₂ Group.
- (b) Directors and employees of Cazenove, the sponsor, broker and financial adviser to BT, who have been advising BT, hold, in aggregate, an interest in 442 BT Shares.
- (c) No application is being made for either the BT Group Shares or mmO₂ Shares to be listed in Japan.
- (d) Schroder Salomon Smith Barney is the trading name of Salomon Brothers International Limited. Schroder is a trademark of Schrodgers Holdings plc and is used under licence by Salomon Brothers International Limited.

11. Documents available for inspection

Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Company and at the offices of Linklaters at One Silk Street, London EC2Y 8HQ during normal business hours from the date this document is published to the date of the meetings, 23 October 2001:

- (a) the Memorandum and Articles of Association of BT, BT Group plc and mmO₂ plc;
- (b) the audited consolidated financial statements of BT for the years ended 31 March 1999, 2000 and 2001;
- (c) the letters of consent referred to in paragraph 9 above;
- (d) the letter by PricewaterhouseCoopers set out in Part 6 and the statements attached to it;
- (e) the rules of the BT Share Schemes;
- (f) the draft trust deed relating to the Special Purpose Trust arrangements for the Sharesave Scheme Optionholders, described in paragraph 14 of Part 3 of this document;
- (g) the rules of the mmO₂ All-Employee Share Plans and the mmO₂ Executive Share Portfolio;
- (h) the service agreements referred to in paragraph 5 of Section A of this Part;

- (i) the material contracts referred to in paragraph 5 of Section D of this Part;
- (j) the mmO₂ Summary Particulars and the mmO₂ Listing Particulars;
- (k) the BT Group Listing Particulars; and
- (l) this document and the accompanying flyer.

Dated 18 September 2001

***Part 8:
Further information
for holders of BT ADSs
and US Holders***

This part contains further information for holders of BT ADSs and US Holders. US Holders of BT Shares and holders of BT ADSs will not be sent the mmO₂ Summary Particulars. They will be sent the mmO₂ Form 20-F. US Holders of BT Shares and holders of BT ADSs when referred by this document to the mmO₂ Summary Particulars should instead refer to the mmO₂ Form 20-F.

1. Expected timetable of principal events for holders of BT ADSs

2001

Documents mailed to holders of BT ADSs	From 24 September
Latest time for holders of BT ADSs at the relevant record date to provide voting instructions to the ADS Depository for the Court Meeting and Extraordinary General Meeting.	18 October 3.00 p.m. New York Time
Court Meeting and Extraordinary General Meeting	23 October
When issued trading in mmO ₂ ADSs on the New York Stock Exchange expected to commence	9 November 9.30 a.m. New York Time
Court hearing of the petition to sanction the Scheme	14 November
Court hearing of the petition to confirm the reduction of capital of BT provided for under the Scheme ⁽ⁱⁱ⁾	15 November
Dealings in BT Shares on the London Stock Exchange ceases ⁽ⁱⁱⁱ⁾	16 November
Trading in BT ADSs on the New York Stock Exchange ceases ⁽ⁱⁱⁱ⁾	16 November
Scheme Record Time ⁽ⁱⁱⁱ⁾	16 November 5.00 p.m. London Time
Scheme Effective Time ⁽ⁱⁱⁱ⁾	16 November 5.30 p.m. London Time
Demerger Record Time ⁽ⁱⁱⁱ⁾	19 November 6.00 a.m. London Time
Demerger Effective Time ⁽ⁱⁱⁱ⁾	19 November 8.00 a.m. London Time
Dealings in BT Group Shares and mmO ₂ Shares commence on the London Stock Exchange ⁽ⁱⁱⁱ⁾	19 November 8.00 a.m. London Time
Trading in BT Group ADSs and mmO ₂ ADSs commences on the New York Stock Exchange ⁽ⁱⁱⁱ⁾	19 November 9.30 a.m. New York Time
BT ADSs exchanged for BT Group ADSs and mmO ₂ ADSs through DTC for book-entry holders of BT ADSs	19/20 November
Notice mailed to registered holders of BT ADSs regarding the exchange of BT ADSs for BT Group ADSs and mmO ₂ ADSs.	From 20 November
Court hearing of the petition to confirm the BT Group Reduction of Capital ^(iv)	20 November
BT Group Reduction of Capital becomes effective ^(v)	21 November

⁽ⁱ⁾ This date is indicative only and will depend upon the date on which the Court sanctions the Scheme.

⁽ⁱⁱ⁾ These dates are indicative only and will depend, amongst other things, on the dates on which the Court sanctions the Scheme and approves the reduction of capital of BT provided for under the Scheme.

⁽ⁱⁱⁱ⁾ These dates are indicative only and will depend, amongst other things, on the date on which the reduction of capital provided for under the Scheme becomes effective.

^(iv) This date is indicative only and will depend, amongst other things, on the date on which the Demerger becomes effective.

^(v) This date is indicative only and will depend upon the date on which the Demerger becomes effective and the date on which the Court confirms the BT Group Reduction of Capital.

The dates given in this Part 8 are based on BT's current expectations and may be subject to change.

2. Information for holders of BT ADSs

The Scheme and the Demerger

Following the Scheme becoming effective the BT Shares underlying each BT ADS will be cancelled and an equal number of mmO₂ Shares will be issued to the ADS Depository. Following the Demerger becoming effective the ADS Depository, as the registered holder of mmO₂ Shares, will receive a distribution of BT Group Shares pursuant to the Demerger. The ADS Depository will receive one BT Group Share for each mmO₂ Share held at the Demerger Record Time.

Following the Scheme and Demerger becoming effective, the ADS Depository will request that all holders of BT ADSs as of 5.00 p.m. (New York time) on 16 November 2001 exchange their existing BT ADS for BT Group ADSs and mmO₂ ADSs. For each BT ADS held at this time, holders of BT ADSs will receive one BT Group ADS and one mmO₂ ADS.

Following the Scheme and the Demerger becoming effective, the ADS Depository will mail a notice to registered holders of BT ADSs regarding the mechanics of exchange of BT ADSs for BT Group ADSs and mmO₂ ADSs. Holders of registered BT ADSs will need to follow the instructions set out in this notice to exchange their BT ADSs for BT Group ADSs and mmO₂ ADSs. Following the Scheme and the Demerger becoming effective, with no action on the part of the holders of book-entry BT ADSs, appropriate notation will be

Part 8: Further information for holders of BT ADSs and US Holders

made at the relevant book-entry facility with respect to the book-entry BT ADSs to credit such holders' accounts with the appropriate number of BT Group ADSs and mmO₂ ADSs.

After the Scheme and the Demerger are effective, an mmO₂ ADS facility will be created and the BT ADS facility will become a BT Group ADS facility.

3. Voting

The latest time to provide the ADS Depository with voting instructions for both the Court Meeting and the EGM is 3.00 p.m. (New York time) on 18 October 2001.

Holders of BT ADSs will not, except as described below, be entitled to attend the Court Meeting or the EGM or to be present at the Court hearings to sanction the Scheme and to confirm the reduction of capital provided for under the Scheme, although the ADS Depository or its nominee as the record holder of BT Shares underlying the BT ADSs will be so entitled and will vote in accordance with instructions that may be received by 3.00 p.m. (New York time) on 18 October 2001 from holders of BT ADSs.

Holders of BT ADSs who wish to attend the Court Meeting or the EGM or to be present at the above mentioned court hearings to sanction the Scheme and to confirm the reduction of capital provided for under the Scheme should take steps to present their BT ADSs to the ADS Depository, as depository under the BT ADS Deposit Agreement, for cancellation and (upon compliance with the terms of the BT ADS Deposit Agreement, including payment of the ADS Depository's fee and any applicable taxes and governmental charges) delivery of BT Shares so as to become record holders of BT Shares prior to the relevant Voting Record Time for the Court Meeting or the EGM or prior to the relevant Court hearing, as the case may be. The relevant Voting Record Times for the Court Meeting and the EGM and the dates of the Court hearings, to sanction the Scheme and to confirm the reduction of capital provided for under the Scheme, appear in the Expected Timetable of Principal Events at the beginning of this document.

Similarly, holders of BT ADSs who wish to be present at the Court hearing to consider the BT Group Reduction of Capital are advised to consider taking steps (as described in the paragraph above) to cancel their BT ADSs to become holders of BT Shares so that they will become, pursuant to the Scheme and the Demerger, shareholders in BT Group plc. As shareholders in BT Group plc they will have the right to attend the Court hearing on 20 November 2001 in person or be represented by counsel to support or approve the sanctioning of the BT Group Reduction of Capital.

4. New York Stock Exchange listing of BT Group ADSs and mmO₂ ADSs

A supplemental listing application will be made to list the BT Group ADSs, each representing 10 BT Group Shares, on the New York Stock Exchange.

An original listing application will be made to list the mmO₂ ADSs, each representing 10 mmO₂ Shares, on the New York Stock Exchange.

Neither of the above listing applications are conditions to be satisfied for the Scheme or the Demerger to become effective.

5. Available Information

BT files annual and special reports and other information, with the SEC. After the Scheme and Demerger are effective, BT Group plc and mmO₂ plc will file annual and special reports and other information, with the SEC. You may read and copy any reports and other information on file at the SEC's public reference room located at 450 Fifth Street, NW, Washington, D.C. 20549 or at one of the SEC's other reference rooms in New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for more information on the public reference rooms. The SEC filings are also available to the public from commercial document retrieval services on payment of a fee.

The BT ADSs are listed on the New York Stock Exchange. It is currently anticipated that both BT Group plc and mmO₂ plc will be listed on the New York Stock Exchange. You may inspect any reports and other information filed with the SEC by BT, BT Group plc or mmO₂ plc at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

Following the Scheme becoming effective, mmO₂ Shares will be registered under the Securities Exchange Act and mmO₂ plc will be subject to the information requirements of the Securities Exchange Act and will be required to file reports and furnish other information with the SEC and the New York Stock Exchange. In addition, after the Demerger, BT Group Shares will be registered under the Securities Exchange Act and BT Group plc, as the successor registrant to BT, will continue to be subject to the information requirements of the Securities Exchange Act and will continue to file reports and furnish other information with the SEC.

6. Exemption from Registration under the Securities Act

The Scheme

The mmO₂ Shares and the mmO₂ ADSs will not be registered under the Securities Act in reliance upon the exemption from the registration requirements of the Securities Act provided by Section 3(a)(10) of that Act. mmO₂ Shares and mmO₂ ADSs issued to a BT Shareholder or to a holder of BT ADSs who is neither an affiliate, for the purposes of the Securities Act, of BT prior to the Scheme Effective Time nor an affiliate of mmO₂ plc after the Scheme Effective Time, may be resold without restriction under the Securities Act. BT Shareholders and holders of BT ADSs who are affiliates of BT prior to the Scheme Effective Time or affiliates of mmO₂ plc after the Scheme Effective Time will be subject to certain restrictions under the Securities Act on the resale of any mmO₂ Shares and mmO₂ ADSs received by them under the Scheme, except for resale transactions otherwise exempt from the restrictions of the Securities Act. BT Shareholders and holders of BT ADSs who believe they may be affiliates for the purposes of the Securities Act should consult their own legal advisers prior to any sale of mmO₂ Shares or mmO₂ ADSs received upon implementation of the Scheme.

For the purpose of qualifying for the exemption from the registration requirements of the Securities Act provided by Section 3(a)(10) of that Act with respect to the mmO₂ Shares and the mmO₂ ADSs issued pursuant to the Scheme, BT will advise the Court that its sanctioning of the Scheme will be relied upon by BT as an approval of the Scheme following a hearing on its fairness to BT Shareholders at which hearing all such shareholders are entitled to attend in person or through counsel to support or oppose the sanctioning of the Scheme and with respect to which notification has been given to all such shareholders.

The Demerger

BT Shareholders and holders of BT ADSs who are citizens or residents of the United States are advised that registration under the Securities Act of the BT Group Shares and BT Group ADSs to be distributed pursuant to the Demerger is not required.

7. US Taxation

The following is a discussion of material US federal income tax consequences of the Scheme and the Demerger to persons that are US Holders (as defined below) who hold their BT Shares or BT ADSs as capital assets, and of the ownership and disposition of mmO₂ Shares or mmO₂ ADSs and BT Group Shares or BT Group ADSs by US Holders who hold their shares or ADSs of mmO₂ plc and BT Group plc, respectively, as capital assets. This discussion is based on US federal income tax laws, including the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), Treasury regulations, rulings, judicial decisions and administrative pronouncements, and on existing UK tax law and UK Inland Revenue practice, including the US-UK Income Tax Convention (the "existing tax treaty"), all as currently in effect, and all of which are subject to change or changes in interpretation, possibly with retroactive effect. The United States and the United Kingdom signed a new US-UK Income Tax Convention (the "new tax treaty") on 24 July 2001, the provisions of which will not enter into force until the Convention has completed its passage through the United States Senate and the United Kingdom Parliament and has been ratified by both governments. The discussion below notes the instances in which the relevant provisions of the new tax treaty would produce a materially different result for a US Holder.

This discussion does not address all aspects of US federal income taxation that may apply to holders subject to special tax rules, including US expatriates, insurance companies, tax-exempt organisations, financial institutions, securities broker-dealers, persons subject to the alternative minimum tax, investors that actually or constructively own 10 per cent. or more of the outstanding share capital of mmO₂ plc or BT Group plc, persons holding their shares or ADSs as part of a straddle, hedging transaction or conversion transaction, persons who acquired their shares or ADSs pursuant to the exercise of options or similar derivative securities or otherwise as compensation, or persons whose functional currency is not the US dollar, among others. Those holders may be subject to US federal income tax consequences different from those set forth below.

For purposes of this discussion, a "US Holder" is a beneficial owner of shares or ADSs that, for US federal income tax purposes, is: an individual citizen or resident of the United States, a corporation created or organised in or under the laws of the United States or any state thereof, an estate whose income is subject to US federal income taxation regardless of its source, or a trust if a US court can exercise primary supervision over the administration of the trust and one or more US persons are authorised to control all substantial decisions of the trust.

All holders of BT Shares or BT ADSs who receive mmO₂ Shares or mmO₂ ADSs under the Scheme, and all persons who own mmO₂ Shares or mmO₂ ADSs and BT Group Shares or BT Group ADSs after the Demerger should consult their own tax advisors concerning the specific US federal, state and local tax consequences applicable in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction.

Part 8: Further information for holders of BT ADSs and US Holders

For US federal income tax purposes and for purposes of the existing tax treaty, a US Holder of BT ADSs will be treated as owning the underlying BT Shares represented thereby. Accordingly, the following discussion (except where otherwise expressly noted) applies equally to US Holders of BT Shares, mmO₂ Shares and BT Group Shares, on the one hand, and of BT ADSs, mmO₂ ADSs and BT Group ADSs on the other.

The Scheme and the Demerger

The Scheme

The exchange of BT Shares for mmO₂ Shares by a US Holder who currently holds its BT Shares as a capital asset will not be a taxable exchange for US federal income tax purposes. Accordingly, the US Holder of BT Shares will not recognise any gain or loss on the receipt of mmO₂ Shares with respect to the BT Shares cancelled in connection with the Scheme. The US Holder's tax basis and holding period in the mmO₂ Shares will be the same as such US Holder's adjusted tax basis and holding period in the BT Shares exchanged therefor.

The Demerger

BT plc has received an opinion from PricewaterhouseCoopers, tax advisor to BT plc, that, for US federal income tax purposes, the Demerger should qualify as a tax-free distribution under Section 355 of the Internal Revenue Code. This opinion relies upon certain assumptions and representations of the management of BT plc. BT plc is not currently aware of any facts or circumstances that would cause such assumptions to be unreasonable or such representations to be untrue. An opinion does not bind the US Internal Revenue Service (the "IRS") or a court and thus the IRS or a court could reach a conclusion contrary to that reached in the opinion. BT plc has not sought and does not intend to seek an advance ruling from the IRS regarding the qualification of the Demerger under Section 355 of the Internal Revenue Code.

As a result of the Demerger qualifying as a tax-free distribution under Section 355 of the Internal Revenue Code, the following will result for US federal income tax purposes:

- (1) No gain or loss will be recognised by (and no amount will be included in the income of) a US Holder upon the receipt of the BT Group Shares;
- (2) The aggregate tax basis of the BT Group Shares and the mmO₂ Shares (received in connection with the Scheme, as described above) in the hands of a US Holder immediately after the Demerger will be the same as the basis at which the US Holder held its mmO₂ Shares (the basis of which will, in turn, equal the adjusted tax basis in the BT Shares exchanged therefor pursuant to the Scheme) immediately before the Demerger, and such aggregate tax basis will be allocated between the BT Group Shares and the mmO₂ Shares based upon their respective fair market values immediately after the Demerger; and
- (3) Providing the mmO₂ Shares are held as a capital asset, the holding period for BT Group Shares received in the Demerger by a US Holder will include the period during which the US Holder held its mmO₂ Shares before the Demerger (the holding period of which will, in turn, equal the holding period in the BT Shares exchanged therefor pursuant to the Scheme).

If the Demerger does not qualify under Section 355 of the Internal Revenue Code, each US Holder that receives BT Group Shares in the Demerger will be treated as having received a distribution (taxable as a dividend) in an amount equal to the fair market value of the BT Group Shares pursuant to the Demerger.

US Treasury regulations governing Section 355 of the Internal Revenue Code require that each US Holder that receives BT Group Shares in the Demerger attach a statement to his federal income tax return for the taxable year in which the Demerger occurs, stating the applicability of Section 355 of the Internal Revenue Code to the Demerger. The information necessary to comply with this requirement will be available from BT Group plc for registered US Holders of BT Shares, and from the ADS Depository for registered US Holders of BT ADSs, following the Scheme and the Demerger becoming effective.

Ownership and Disposition of mmO₂ Shares and BT Group Shares

Taxation of Dividends

The gross amount of distributions paid (including any additional dividend income arising from a foreign tax credit claim as described below), to a US Holder by mmO₂ plc or BT Group plc will be taxable as ordinary income to the US Holder for US federal income tax purposes to the extent paid out of mmO₂ plc's or BT Group plc's current or accumulated earnings and profits, as determined for US federal income tax purposes, based on the US dollar value of the distribution calculated by reference to the spot rate in effect on the date the distribution is actually or constructively received by a US Holder, in the case of mmO₂ Shares or BT Group Shares, or by the ADS

Depository, in the case of mmO₂ ADSs or BT Group ADSs. Distributions by mmO₂ plc or BT Group plc in excess of current and accumulated earnings and profits will be treated first as a tax-free return of capital to the extent of the US Holder's basis in the mmO₂ Shares or BT Group Shares, thus reducing the US Holder's adjusted tax basis in such mmO₂ Shares or BT Group Shares and, thereafter, as a capital gain. For foreign tax credit limitation purposes, dividends paid by mmO₂ plc or BT Group plc will be income from sources outside the United States. Dividends paid by mmO₂ plc or BT Group plc will not be eligible for the dividends-received deduction generally allowed to US corporations in respect of dividends received from other US corporations.

Dividends paid with respect to the mmO₂ Shares or BT Group Shares will be treated as "passive income" or, in the case of certain US Holders, "financial services income", for purposes of computing allowable foreign tax credits for US federal income tax purposes. Under the existing tax treaty, a US Holder that is eligible for benefits with respect to income derived in connection with the mmO₂ Shares or BT Group Shares (each such holder referred to as an "eligible US Holder") and that claims the benefits of the existing tax treaty with respect to a dividend from mmO₂ plc or BT Group plc will be entitled to a foreign tax credit for the UK tax notionally withheld with respect to such dividend. If an eligible US Holder is so entitled, the foreign tax credit would be equal to one-ninth of any dividend received and would give rise to additional dividend income in the same amount. Each eligible US Holder that relies on the existing tax treaty to claim a foreign tax credit under these circumstances must file IRS Form 8833 (Treaty-Based Return Position Disclosure) disclosing this reliance with his US federal income tax return for the year in which the foreign tax credit is claimed. Alternatively, a US Holder may claim all foreign tax paid during a particular taxable year as an itemised deduction. A deduction does not reduce US federal income tax on a dollar for dollar basis like a tax credit. The deduction, however, is not subject to the limitations described above.

The rules governing the foreign tax credit are complex. Each US Holder is urged to consult his own tax advisor concerning whether the US Holder is eligible for benefits under the existing tax treaty, whether, and to what extent, a foreign tax credit will be available under the existing tax treaty with respect to dividends received from mmO₂ plc or BT Group plc, and whether the US Holder will be eligible for benefits under the new tax treaty.

US Holders are advised that under the new tax treaty (pending ratification) there would be no notional UK withholding tax applied to a dividend payment and it therefore would not be possible to claim a foreign tax credit in respect of any dividend payment made by mmO₂ plc or BT Group plc.

A US Holder will have a basis in any pounds sterling distributed, for US federal income tax purposes, equal to the US dollar value of pounds sterling on the date of payment. Any gain or loss recognised upon a subsequent disposition of pounds sterling will generally be ordinary income or loss. Each US Holder should consult his own tax advisor concerning the treatment of any foreign currency gain or loss on any pounds sterling received with respect to the mmO₂ Shares or BT Group Shares that are not converted into US dollars on the date the pounds sterling are actually or constructively received.

Taxation of Capital Gains

In general, upon a sale, exchange or other disposition of mmO₂ Shares or BT Group Shares, a US Holder will recognise capital gain or loss for US federal income tax purposes in an amount equal to the difference between the US dollar value of the amount realised on the disposition and the US Holder's tax basis, determined in US dollars, in the mmO₂ Shares or BT Group Shares. Such gain or loss generally will be US source gain or loss, and will be treated as a long-term capital gain or loss if the US Holder's holding period in the mmO₂ Shares or BT Group Shares exceeds one year. The deductibility of capital losses is subject to significant limitations. If the US Holder is an individual, any capital gain generally will be subject to US federal income tax at preferential rates if specified minimum holding periods are met.

UK Stamp Duty and SDRT

See the sections "UK Taxation — Stamp Duty and Stamp Duty Reserve Tax" and "UK Taxation — Stamp Duty and SDRT" in paragraph 1 of Section D of Part 7, which apply equally to US Holders of mmO₂ Shares, mmO₂ ADSs, BT Group Shares or BT Group ADSs.

US Information Reporting and Backup Withholding

Dividend payments made to a holder and proceeds paid from the sale, exchange, or other disposition of a holder's mmO₂ Shares or BT Group Shares may be subject to information reporting to the IRS and possible US federal backup withholding at a rate of up to 30.5 per cent. Certain exempt recipients (such as corporations) are not subject to these information reporting requirements. Backup withholding will not apply to a holder who furnishes a correct taxpayer identification number or certificate of foreign status and makes

Part 8: Further information for holders of BT ADSs and US Holders

any other required certification, or who is otherwise exempt from backup withholding. US persons who are required to establish their exempt status generally must provide IRS Form W-9 (Request for Taxpayer Identification Number and Certification). Non-US holders generally will not be subject to US information reporting or backup withholding. However, such holders may be required to provide certification of non-US status in connection with payments received in the United States or through certain US-related financial intermediaries.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder's US federal income tax liability. A holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS and furnishing any required information.

Part 9: *Scheme documentation*

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

No. 005415 of 2001

IN THE MATTER OF BRITISH TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

and

IN THE MATTER OF THE COMPANIES ACT 1985

SCHEME OF ARRANGEMENT

(under Section 425 of the Companies Act 1985)

between

BRITISH TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

and

THE HOLDERS OF THE BT SHARES

(as hereinafter defined)

PRELIMINARY

(A) In this Scheme of Arrangement, unless the context otherwise requires, the following expressions shall have the following meanings:

“BT”	means British Telecommunications public limited company, incorporated in England and Wales with registered number 1800000
“BT Group businesses”	means the businesses carried on by the Group other than those carried on by members of the mmO ₂ Group
“BT Group Investments”	means BT Group Investments Limited, incorporated in England and Wales with Company Number 4278695
“BT Group plc”	means BT Group plc, incorporated in England and Wales with registered number 4190816
“BT Group Reduction of Capital”	means the proposed reduction of capital of BT Group plc under section 135 of the Companies Act 1985, details of which are set out in the Explanatory Statement
“BT Group Shares”	means ordinary shares of 115 pence each (or the lower nominal amount resulting from the BT Group Reduction of Capital) in the capital of BT Group plc
“BT Shareholders”	means holders of BT Shares appearing in the register of members of BT at the Scheme Record Time
“BT Shares”	means Ordinary Shares: (a) in issue at the date of this Scheme; (b) (if any) issued after that date and prior to the Voting Record Time; and (c) (if any) issued at or after the passing of the First Special Resolution and before the confirmation by the Court of the reduction of capital provided for by Clause 2 of this Scheme in respect of which the original or any subsequent holder shall be bound or shall, before such confirmation, have agreed in writing to be bound by this Scheme
“business day”	means a day (excluding Saturday or Sunday or public holidays in England and Wales) on which banks generally are open for business in the City of London for the transaction of normal banking business
“certificated” or “in certificated form”	where a share or other security is not in uncertificated form

“Court Meeting”	means the meeting of holders of Ordinary Shares convened by order of the Court under section 425 of the Companies Act 1985 to consider and, if thought fit, approve this Scheme and any adjournment of that meeting
“CREST”	means the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by CRESTCo in accordance with the Regulations
“CRESTCo”	means CRESTCo Limited
“Demerger”	means the proposed demerger of the BT Group businesses by mmO ₂ plc, details of which are set out in the Explanatory Statement
“Demerger Effective Time”	means the time at which the Demerger becomes effective
“Explanatory Statement”	means the explanatory statement sent to shareholders with this Scheme pursuant to Section 426 of the Companies Act 1985
“First Court Hearing”	means the hearing of the petition seeking an order sanctioning this Scheme
“First Special Resolution”	means the first resolution set out in the notice convening the Extraordinary General Meeting of the Company set out in Part 9 of the document of which this Scheme forms part
“Group”	means, before the Demerger Effective Time, BT and its subsidiary undertakings and mmO ₂ plc and its subsidiary undertakings and, after the Demerger Effective Time, BT Group plc and its subsidiary undertakings
“holder”	means a registered holder and includes any person(s) entitled by transmission
“mmO₂ Group”	means O ₂ Limited and its subsidiary undertakings before the Demerger Effective Time and mmO ₂ plc and its subsidiary undertakings following the Demerger Effective Time
“mmO₂ plc”	means mmO ₂ plc, incorporated in England and Wales with registered number 4190833
“mmO₂ Shares”	means ordinary shares of 0.1 pence each in the capital of mmO ₂ plc
“O₂ Limited”	means O ₂ Limited, incorporated in England and Wales with registered number 2604354
“Optionholders”	means holders of options to acquire Ordinary Shares under employee share schemes established by BT
“Ordinary Shares”	means ordinary shares of 25 pence each in the capital of BT
“Proposals”	means the recommended proposals for the Demerger, this Scheme and the BT Group Reduction of Capital
“Reduction Effective Date”	means the date on which an office copy of the Reduction Order shall have been duly delivered to the Registrar of Companies for registration and registered by him
“Reduction Order”	means the Order of the Court confirming under section 137 of the Companies Act 1985 the reduction of capital provided for by Clause 2 of this Scheme
“Regulations”	means the Uncertificated Securities Regulations 1995 (SI 1995 No. 95/3272), as amended
“Scheme”	means this Scheme of Arrangement in its present form or with or subject to any modification, addition or condition approved or imposed by the Court
“Scheme Fully Effective Time”	means the time at which an office copy of the Reduction Order is registered by the Registrar of Companies
“Scheme Record Time”	means, if the Reduction Effective Date is a Friday, 5.00 p.m. on that date or otherwise 5.00 p.m. on the business day last preceding the Reduction Effective Date
“Special Purpose Trust”	means the special purpose trust referred to in preliminary (E) to this Scheme
“SPT Expenses”	means expenses of operating the Special Purpose Trust including the payment of stamp duty and/or stamp duty reserve tax
“SPT Shares”	means the Ordinary Shares which are to be acquired by the Special Purpose Trust as described in Preliminaries (E) and (F) to this Scheme

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“SPT Trustees”	means the trustees for the time being of the Special Purpose Trust
“uncertificated” or “in uncertificated form”	means recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST
“Voting Record Time”	means 6.00 p.m. on 21 October 2001 or, if the Court Meeting is adjourned, 48 hours before the time fixed for the adjourned meeting

and references to Clauses are to Clauses of this Scheme.

- (B) The authorised share capital of BT at the date of this Scheme is £2,625,000,001 divided into 10,500,000,004 ordinary shares of 25 pence each, of which 8,599,473,628 have been issued and are credited as fully paid and the remainder are unissued.
- (C) mmO₂ plc was incorporated in England and Wales as a private limited company on 30 March 2001 under the name Newgate Wireless Limited with registered number 4190833. By virtue of a resolution passed on 11 September 2001 it was re-registered as a public limited company and the name of the company was changed to mmO₂ plc.
- (D) The authorised share capital of mmO₂ plc at the date of this Scheme is £20,050,040 divided into 20,000,000,000 ordinary shares of 0.1p each, 2,000 of which have been issued and are credited as fully paid, one redeemable preference share of £50,000 and 40 deferred shares of £1 each, all of which have been issued and are fully paid.
- (E) BT has established a special purpose trust to acquire Ordinary Shares which will be BT Shares for the purposes of this Scheme. The mmO₂ Shares received by such Special Purpose Trust pursuant to this Scheme and any BT Group Shares received by the Special Purpose Trust pursuant to the Demerger will be available for transfer to Optionholders in the circumstances described on pages 29 to 30 of the Explanatory Statement.
- (F) The number of Ordinary Shares to be acquired by the Special Purpose Trust, the subscription price for such shares and the funds required to enable the SPT Trustees to subscribe for such shares will be determined by the directors of BT prior to the First Court Hearing.
- (G) The provisions of Part 2 of this Scheme are subject to the subsequent confirmation by the Court of the reduction of capital provided for by Clause 2 and accordingly may not be implemented until an office copy of the Reduction Order has been duly delivered to the Registrar of Companies for registration and registered by him.
- (H) mmO₂ plc has agreed to appear by Counsel on the hearing of the petition to sanction this Scheme, to submit to and undertake to the Court to be bound by it and to execute and do or procure to be executed and done all documents, acts and things as may be necessary or desirable to be executed or done by it for the purpose of giving effect to this Scheme.

THE SCHEME

PART 1

1. Loan to SPT Trustees

BT is authorised and permitted to lend to the SPT Trustees such funds as the directors of BT may consider to be requisite to enable the SPT Trustees to subscribe for the SPT Shares and to pay any SPT Expenses.

PART 2

2. Cancellation of BT Shares

Forthwith upon the SPT Trustees having subscribed for the SPT Shares and the names of the SPT Trustees having been entered in the register of members of BT as the holders of such shares and subject to the subsequent confirmation of such reduction of capital by the Court:

- (a) The share capital of BT shall be reduced by cancelling and extinguishing the BT Shares;
- (b) Subject to and immediately upon the reduction of capital taking effect:
 - (i) the share capital of BT shall be increased to its former amount by the creation of such number of Ordinary Shares as shall be of an aggregate nominal amount equal to the aggregate nominal amount of the BT Shares cancelled pursuant to sub-clause (a) of this Clause, and

- (ii) BT shall apply the reserve arising in its books of account as a result of the cancellation of the BT Shares in paying up, in full at par, the new Ordinary Shares created pursuant to Clause 2(b)(i) and shall allot and issue the same, credited as fully paid up, to mmO₂ plc and/or its nominee(s).

3. Consideration for the cancellation of the BT Shares

In consideration of the cancellation of the BT Shares and the allotment and issue of the new Ordinary Shares as provided in Clause 2(b)(ii), mmO₂ plc shall (subject to the provisions of Clauses 4 and 5) allot and issue (credited as fully paid) mmO₂ Shares to the BT Shareholders, on the following basis:

for every BT Share held at the Scheme Record Time one mmO₂ Share

4. Allotment and issue of mmO₂ Shares

- (a) The mmO₂ Shares to be issued pursuant to Clause 3 shall rank pari passu in all respects with all other mmO₂ Shares in issue at the Scheme Fully Effective Time including, subject as provided in Clause 9 of this scheme, for all dividends or other distributions made, paid or declared after the Scheme Fully Effective Time on the ordinary share capital of mmO₂ plc.
- (b) The provisions of Clause 3 relating to the allotment and issue of mmO₂ Shares shall be subject to any prohibition or condition imposed by law. Without prejudice to the generality of the foregoing, if, in respect of any holder of BT Shares with a registered address in a jurisdiction outside the United Kingdom, or whom mmO₂ plc reasonably believes to be a citizen, resident or national of a jurisdiction outside the United Kingdom, mmO₂ plc is advised that the allotment and issue of mmO₂ Shares pursuant to Clause 3 would or may infringe the laws of such jurisdiction or would or may require mmO₂ plc to comply with any governmental or other consent or any registration, filing or other formality with which mmO₂ plc is unable to comply or compliance with which mmO₂ plc regards as unduly onerous, then mmO₂ plc may in its sole discretion either:
 - (i) determine that no mmO₂ Shares shall be allotted or issued to such holder under Clause 3, but shall instead be allotted and issued to a nominee appointed by mmO₂ plc, as trustee for such holder, on terms that the nominee shall, as soon as practicable following the Scheme Fully Effective Time, sell the mmO₂ Shares so allotted and issued at the best price which can reasonably be obtained at the time of sale and shall, within seven days after any such sale, account for the net proceeds of such sale (after the deduction of all expenses and commissions, including any amounts in respect of value added tax payable thereon) by sending a cheque or warrant to such holder in accordance with the provisions of Clause 5. In the absence of bad faith or wilful default, none of BT, mmO₂ plc or the nominee shall have any liability for any loss or damage arising as a result of the timing or terms of such sale; or
 - (ii) determine that mmO₂ Shares shall be sold in which event the mmO₂ Shares shall be issued to such holder and mmO₂ plc shall appoint a person to act pursuant to this Clause 4(b)(ii) and such person shall be authorised on behalf of such holder to procure that any shares in respect of which mmO₂ plc has made such a determination shall, as soon as practicable following the Scheme Fully Effective Time, be sold at the best price which can reasonably be obtained at the time of sale and the net proceeds of such sale (after the deduction of all expenses and commissions, including any amounts in respect of value added tax payable thereon) shall, within seven days after any such sale, be paid to such holder by sending a cheque or warrant to such holder in accordance with the provisions of Clause 5. To give effect to any such sale, the person so appointed shall be authorised as attorney on behalf of such holder to execute and deliver a form of transfer and to give such instructions and to do all other things which he may consider necessary or expedient in connection with such sale. In the absence of bad faith or wilful default, none of BT, mmO₂ plc or the person so appointed shall have any liability for any loss or damage arising as a result of the timing or terms of such sale.
- (c) Any sale pursuant to Clause 4(b) may be delayed until after the admission of the mmO₂ Shares to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's markets for listed securities. If prior to the time of sale any holder of BT Shares shall have become entitled to shares in BT Group plc in consequence of a holding of mmO₂ Shares to which Clause 4(b) applies then the relevant BT Group Shares shall be dealt with in the same way as the mmO₂ Shares pursuant to Clause 4(b) and their proceeds of sale shall be dealt with accordingly.
- (d) Not later than eleven business days after the Scheme Fully Effective Time, mmO₂ plc shall allot and issue all of the mmO₂ Shares which it is required to allot and issue pursuant to Clause 3 and, in the case of BT Shares which at the Scheme Record Time were in certificated form, shall post certificates for the mmO₂ Shares to the persons entitled thereto or as they may direct in accordance with Clause 5(a). Where the BT Shares were at the Scheme Record Time held in uncertificated form,

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mmO₂ plc shall procure that CRESTCo is instructed to credit the appropriate stock account in CREST of the BT Shareholder concerned with such shareholder's entitlement to such mmO₂ Shares provided that mmO₂ plc may (if, for any reason, it wishes to do so) determine that all or part of such consideration shall be settled in the manner referred to in the first sentence of this Clause 4(d).

5. Certificates and payments

- (a) All deliveries of certificates, receipts, cheques or warrants required to be made pursuant to this Scheme shall be made by sending the same through the post in prepaid envelopes addressed to the persons respectively entitled to them at their respective addresses appearing in the register of members of BT at the Scheme Record Time (or, in the case of joint holders, at the registered address of that one of the joint holders whose name stands first in the register in respect of such joint holding) or in accordance with any special instructions regarding communications.
- (b) None of BT, mmO₂ plc or the nominee or appointee referred to in Clause 4(b) shall be responsible for any loss or delay in transmission of certificates, cheques or warrants sent in accordance with the provisions of this Scheme which shall be sent at the risk of the persons entitled to them.
- (c) All cheques and warrants shall be in sterling drawn on a UK clearing bank and shall be made payable to the holder or, in the case of joint holders, to the first-named holder of the BT Shares concerned or to such other persons as such holders may in writing direct and the encashment of any such cheque or warrant shall be a complete discharge to mmO₂ plc for the money represented by it.
- (d) The preceding sub-clauses of this Clause 5 shall take effect subject to any prohibition or condition imposed by law.

6. Certificates representing BT Shares

With effect from the Scheme Fully Effective Time, all certificates representing BT Shares shall cease to be valid in respect of such shares. In addition, with effect from the Scheme Fully Effective Time, in respect of those shareholders holding their BT Shares in uncertificated form, CRESTCo shall be instructed to cancel such shareholders' entitlement to the BT Shares.

7. Mandated payments and other instructions

- (a) All mandates and other instructions to BT in force immediately prior to the Scheme Fully Effective Time relating to BT Shares and to BT's dividend re-investment plan shall, unless and until revoked or amended, be deemed as from the Scheme Fully Effective Time to be valid and effective mandates and instructions to mmO₂ plc in relation to the corresponding mmO₂ Shares allotted and issued pursuant to this Scheme, and to any dividend re-investment plan which may be established by mmO₂ plc.
- (b) All mandates and other instructions to mmO₂ plc in force at the Demerger Effective Time relating to mmO₂ Shares and to any dividend re-investment plan which may be established by mmO₂ plc shall, unless and until revoked or amended, be deemed, as from the Demerger Effective Time also to be valid and effective mandates and instructions to BT Group plc in relation to the corresponding BT Group Shares allotted and issued pursuant to the Demerger, and to the dividend re-investment plan to be established by BT Group plc.

8. Transfer by BT

BT is authorised and permitted, following the Scheme Fully Effective Time:

- (a) to transfer O₂ Limited to mmO₂ plc at book value on terms that the consideration payable is left outstanding on inter-company loan account as a debt due from mmO₂ plc to BT (the "mmO₂ Debt");
- (b) to agree to the assumption by BT Group Investments of the liability of mmO₂ plc in respect of the mmO₂ Debt and the release of mmO₂ plc from such liability; and
- (c) to pay any and all of the costs and expenses relating to the Proposals.

9. Demerger

If the Demerger is implemented, the resolution of mmO₂ plc to approve the dividend required to implement the Demerger (the "Resolution") may provide that if, in respect of any former holder of BT Shares who has become a holder of mmO₂ Shares pursuant to the Scheme and who has a registered address in a jurisdiction outside the United Kingdom, or whom BT Group plc

reasonably believes to be a citizen, resident or national of a jurisdiction outside the United Kingdom, BT Group plc is advised that the allotment and issue of BT Group Shares pursuant to the Demerger would or may infringe the laws of such jurisdiction or would or may require BT Group plc to comply with any governmental or other consent or any registration, filing or other formality with which BT Group plc is unable to comply or compliance with which BT Group plc regards as unduly onerous, then BT Group plc may in its sole discretion either:

- (i) determine that no BT Group Shares shall be allotted or issued to such holder pursuant to the Resolution, but shall instead be allotted and issued to a nominee appointed by BT Group plc, as trustee for such holder, on terms that the nominee shall, as soon as practicable following the Demerger becoming effective, sell the BT Group Shares so allotted and issued at the best price which can reasonably be obtained at the time of sale and shall, within seven days after any such sale, account for the net proceeds of such sale (after the deduction of all expenses and commissions, including any amounts in respect of value added tax payable thereon) by sending a cheque or warrant to such holder in accordance with the Resolution which may provide that in the absence of bad faith or wilful default, none of mmO₂ plc, BT Group plc or the nominee shall have any liability for any loss or damage arising as a result of the timing or terms of such sale; or
- (ii) determine that such BT Group Shares shall be sold in which event the BT Group Shares shall be issued to such holder and BT Group plc shall appoint a person to act pursuant to the Resolution and such person shall be authorised on behalf of such holder to procure that any shares in respect of which BT Group plc has made such a determination shall, as soon as practicable following the Demerger becoming effective, be sold at the best price which can reasonably be obtained at the time of sale and the net proceeds of such sale (after the deduction of all expenses and commissions, including any amounts in respect of value added tax payable thereon) shall, within seven days after any such sale, be paid to such holder by sending a cheque or warrant to such holder in accordance with the Resolution. The Resolution may provide that to give effect to any such sale, the person so appointed shall be authorised as attorney on behalf of such holder to execute and deliver a form of transfer and to give such instructions and to do all other things which he may consider necessary or expedient in connection with such sale and that in the absence of bad faith or wilful default, none of mmO₂ plc, BT Group plc or the person so appointed shall have any liability for any loss or damage arising as a result of the timing or terms of such sale.

PART 3

10. Operation of this Scheme

- (a) This Scheme shall become effective as soon as an office copy of the Order under section 425 of the Companies Act 1985 has been duly delivered to the Registrar of Companies for registration.
- (b) Unless this Scheme has become effective on or before 31 March 2002 or such later date, if any, as BT and mmO₂ plc may agree and the Court may allow, it shall not become effective.
- (c) BT and mmO₂ plc may jointly consent on behalf of all persons concerned to any modification of or addition to this Scheme or to any condition which the Court may think fit to approve or impose.

Dated the 18th day of September 2001.

NOTICE OF COURT MEETING

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT
MR. REGISTRAR SIMMONDS

No. 005415 of 2001

IN THE MATTER OF BRITISH TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

and

IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that by an Order dated 18 September 2001 made in the above matters, the Court has directed a meeting (the "Court Meeting") to be convened of the holders of the ordinary shares of 25 pence each in the capital of British Telecommunications public limited company (the "Company") for the purpose of considering and, if thought fit, approving (with or without modification) a Scheme of Arrangement proposed to be made between the Company and the holders of the BT Shares (as defined in the said Scheme) and that the meeting will be held in Hall 5 at the National Exhibition Centre, Birmingham B40 1PP, on 23 October 2001 at 10.30 a.m., at which time and place all holders of ordinary shares are requested to attend.

A copy of the Scheme of Arrangement and a copy of the Explanatory Statement required to be furnished under Section 426 of the Companies Act 1985 are incorporated in the document of which this Notice forms part.

Holders of ordinary shares may vote in person at the Court Meeting or they may appoint someone else, who need not be a member of the Company, as their proxy, to attend and vote in their place.

A blue form of proxy for use at the Court Meeting is enclosed with this notice.

It is requested that forms of proxy be lodged with the Registrars of the Company, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA, no later than 10.30 a.m. on 21 October 2001. But if forms are not so lodged they may be handed in at the Court Meeting to be given to the Chairman. Completion of a form of proxy will not prevent a holder of BT Shares from attending and voting at the Court Meeting.

In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority will be determined by the order in which the names appear in the register of members of the Company in respect of the joint holding.

Entitlement to attend and vote at the Court Meeting and the number of votes which may be cast at that meeting will be determined by reference to the register of members of the Company at 6.00 p.m. on 21 October 2001.

If the Court Meeting is adjourned, entitlement to attend and vote will be determined by reference to the register of members of the Company 48 hours before the time of the adjourned meeting.

By the said Order the Court has appointed Sir Francis Christopher Buchan Bland or, failing him, Sir Anthony Armitage Greener or, failing him, Sir Peter Leahy Bonfield to act as chairman of the Court Meeting and has directed the Chairman to report the result of the Court Meeting to the Court.

The said Scheme of Arrangement will be subject to the subsequent sanction of the Court.

DATED 18 September 2001

Linklaters
One Silk Street
London EC2Y 8HQ

Solicitors for the Company

BRITISH TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

(registered in England and Wales No. 1800000)

NOTICE OF EXTRAORDINARY GENERAL MEETING

An Extraordinary General Meeting of British Telecommunications public limited company (the “Company”) will be held in Hall 5 at the National Exhibition Centre, Birmingham B40 1PP at 10.45 a.m. on 23 October 2001 (or as soon after that as the meeting of the holders of ordinary shares of 25p in the capital of the Company convened by the High Court of Justice in England and Wales for the same place and date has been concluded or adjourned) to consider the following resolutions of which resolutions one and two will be proposed as special resolutions and resolutions three, four and five will be proposed as ordinary resolutions.

SPECIAL RESOLUTIONS

1. THAT

- (a) for the purpose of giving effect to the Scheme of Arrangement dated 18 September 2001 between the Company and the holders of the BT Shares (as defined in the Scheme) a print of which has been produced to this meeting and for the purpose of identification signed by the Chairman of the meeting in its original form or with or subject to any modification, addition or condition approved or imposed by the Court (the “Scheme”):
- (i) the capital of the Company be reduced by cancelling and extinguishing the BT Shares (as defined in the Scheme),
 - (ii) subject to and immediately upon the reduction of capital taking effect:
 - (a) the capital of the Company be increased to its former amount by creating the number of ordinary shares of 25 pence each with an aggregate nominal amount equal to the aggregate nominal amount of the BT Shares cancelled under paragraph (i) above,
 - (b) the reserve arising in the books of account of the Company as a result of the cancellation of the BT Shares be applied in paying up in full at par the new ordinary shares so created, for allotment and issue credited as fully paid up to mmO₂ plc and/or its nominee(s), and
 - (iii) the directors of the Company be generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 under Article 74 of the Company’s Articles of Association to allot the ordinary shares referred to in paragraph (ii) above provided that (1) the maximum number of shares which may be allotted under this authority shall be 8.71 billion, (2) this authority shall expire on the date of the annual general meeting in 2002 or, if earlier, 31 March 2002 and (3) this authority shall be without prejudice to any other authority to allot relevant securities previously granted and in force on the date on which this resolution is passed,
- (b) the Articles of Association of the Company be amended
- (i) by adding the following new Article 79A between the current Articles 78 and 79:

“SCHEME OF ARRANGEMENT

- 79A.1 In this Article, the “Scheme” means the Scheme of Arrangement dated 18 September 2001 between BT and holders of the BT Shares (as defined in the Scheme) proposed by BT under Section 425 of the Companies Act 1985 in its original form or with or subject to any modification, addition or condition approved or imposed by the Court, expressions defined in the Scheme and (if not so defined) in the circular containing the explanatory statement circulated with the Scheme under Section 426 of the Companies Act 1985 have the same meanings, and “Parent Company” means whichever of mmO₂ plc and BT Group Investments is for the time being the holder or beneficial owner of a majority of the issued ordinary shares in the capital of BT.
- 79A.2 Despite anything else in the Articles, if BT issues any ordinary shares of 25 pence each (other than to mmO₂ plc or its nominees) on or after the adoption of this Article and prior to the confirmation by the Court of the reduction of capital of the Company provided for under the Scheme those shares will be issued subject to the terms of the Scheme and the holder or holders of those shares will be bound by the Scheme.
- 79A.3 If any shares in BT are allotted or issued to any person (a “new member”) (other than to mmO₂ plc or any subsidiary undertaking of mmO₂ plc or anyone acting on behalf of mmO₂ plc or any subsidiary undertaking of mmO₂ plc) after the Scheme Fully Effective Time they must be immediately transferred to the Parent Company on terms that the Parent Company shall procure the transfer to the new member of:
- 79A.3.1 the number of mmO₂ Shares as the new member would have received had he held those shares in BT as BT Shares at the Scheme Record Time; and

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79A.3.2 subject to the Demerger becoming effective, the number of BT Group Shares as the new member would have received had he held the number of mmO₂ Shares referred to above at the Demerger Record Time;

and, in each case, subject to the same terms and conditions except that if any new member receives mmO₂ Shares under this Article 79A prior to the Demerger Record Time they will not also be entitled to any BT Group Shares under Article 79A.3.2.

79A.4 The number of mmO₂ Shares alone or mmO₂ Shares and BT Group Shares (as the case may be) to be transferred to the new member under this Article 79A may be adjusted by the Board in the way the Auditor decides, on any reorganisation of the share capital of BT or of mmO₂ plc or of BT Group plc.

79A.5 In order to give effect to any transfer required by this Article 79A, BT may appoint any person to execute and deliver a form of transfer on behalf of the new member in favour of the Parent Company and/or its nominees and to agree for and on behalf of the new member to become a member of both mmO₂ plc and BT Group plc or (as the case may be) of mmO₂ plc alone. Before the registration of the Parent Company as a holder of any share to be transferred to it under this Article 79A, the Parent Company can appoint a person nominated by the Board to act as attorney on behalf of any holder of that share in accordance with any directions the Parent Company gives in relation to any dealings with or disposal of that share (or any interest in it), exercising any rights attached to it or receiving any distribution or other benefit accruing or payable in respect of it and any holders of that share must exercise all rights attaching to it in accordance with the directions of the Parent Company"; and

(ii) by amending Article 97 by inserting the following words under the definition of Permitted Person, as the first three bullet points:

- a holding company of BT;
- BT Group Investments Limited;
- mmO₂ plc."

2. **THAT** the proposed BT Group Reduction of Capital, as defined in the circular of the Company dated 18 September 2001 (of which this notice forms part), be approved.

ORDINARY RESOLUTIONS

3. **THAT** the Demerger, as defined in the circular of the Company dated 18 September 2001 (of which this notice forms part), be approved.

4. **THAT** the establishment by mmO₂ plc of the mmO₂ All-Employee Share Plans, a summary of the principal features of which is set out in paragraph 5 of Part 10 of the mmO₂ Summary Particulars dated 18 September 2001, be approved.

5. **THAT** the establishment by mmO₂ plc of the mmO₂ Executive Share Portfolio, a summary of the principal features of which is set out in paragraph 5 of Part 10 of the mmO₂ Summary Particulars dated 18 September 2001, be approved.

By order of the Board

Colin R Green
Secretary

Registered Office

81 Newgate Street
London EC1A 7AJ
Registered in England
No. 1800000

18 September 2001

1. A member of the Company entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him or her. A proxy need not be a member of the Company.
2. A pink form of proxy is enclosed with this notice. Instructions for use are shown on the form. Lodging a form of proxy will not prevent the shareholder from attending the meeting and voting in person.
3. To be valid, the instrument appointing a proxy, together with any power of attorney under which it is signed, or a duly certified copy thereof, must be received at the offices of the Company's Registrar not less than 48 hours before the time of the meeting or adjourned meeting.
4. Only those shareholders registered in the register of members of the Company as at 6.00 p.m. on 21 October 2001 or, in the event that this meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, will be entitled to vote, or appoint a proxy or proxies to vote on their behalf, at this meeting in respect of the number of shares registered in their names at that time. Changes to entries on the relevant register of members after 6.00 p.m. on 21 October 2001, or in the event that this meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting shall be disregarded in determining the rights of any person to attend or vote at the meeting.



British Telecommunications plc
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Registered in England No. 1800000

www.bt.com

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