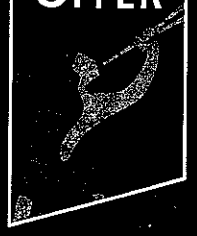
THE BT SHARE OFFER



INTERNATIONAL OFFER

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

The International Tender Offer being made by means of this document is being made outside the UK, the Republic of Ireland, the Channel Islands and the Isle of Man by way of private placing. Accordingly, this document may not be supplied to the public in any jurisdiction, other than the above-named territories, in which any registration, qualification or other requirements exist or would exist in respect of any public offering of Shares. Neither this document nor any copy of it may be taken or transmitted into Canada, or distributed or redistributed in Canada or to any Canadian person (as defined in paragraph 12(l) of Part 10 of this document). Neither this document nor any copy of it should be distributed in Japan or to any resident thereof for the purpose of solicitation of subscription or offer for sale of any securities or in the context where its distribution may be construed as such solicitation or offer. Neither this document nor any copy of it may be taken or transmitted into, or distributed in, the United States. The distribution of this document in other jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of Canadian, Japanese or United States securities laws or the securities laws of any such other jurisdictions.

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

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

Before deciding whether to bid for Shares, consideration should be given as to whether Shares are a suitable investment. Their value can go down as well as up. Past performance is not necessarily indicative of future performance. Prospective investors needing advice should consult an appropriate professional adviser.

British Telecommunications
public limited company

International Tender Offer
by
The Lords Commissioners of HM Treasury

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

The Combined Offers comprise the International
Tender Offer of Shares, being made on a regional basis,
at the International Tender Offer Price
and the UK Public Offer of Shares at the
UK Public Offer Price.

Of the International Tender Offer Price,
125p per Share is payable now,
120p is payable by 7th July, 1992
and the balance is payable by 2nd March, 1993.

Of the UK Public Offer Price,
110p per Share is payable now and the balance is payable
in instalments of the same amounts and by the same dates
as in the International Tender Offer.

Global Co-ordinator
S.G. Warburg Securities

International Offering Circular dated 21st November, 1991

REGIONAL SYNDICATES

The International Tender Offer is being made in the following regions by means of this International Offering Circular, except in Canada, Japan and the United States.

BELGIUM, THE NETHERLANDS AND LUXEMBOURG

ABN AMRO
Banque Bruxelles Lambert S.A. — Rabobank Nederland
S.G.Warburg Securities

Bank van Haften Labouchere N.V. — Generale Bank

Kredietbank International Group — NMB Postbank Groep N.V.

CANADA

Wood Gundy Inc.
Bunting Warburg Inc. — Nesbitt Thomson Inc.

Gordon Capital Corporation — Lévesque Beaubien Geoffrion Inc.

ScotiaMcLeod Inc. — Trilon Securities Corporation

FRANCE

Banque Indosuez
Banque Nationale de Paris — Paribas Capital Markets Group
S.G.Warburg France S.A.

Caisse des Dépôts et Consignations — Crédit Agricole

Crédit Commercial de France — Crédit Lyonnais Securities

Lazard Frères et Cie — N M Rothschild & Sons Limited

Société Générale

GERMANY

Dresdner Bank Aktiengesellschaft
Deutsche Bank Aktiengesellschaft — S.G.Warburg Securities

Bayerische Vereinsbank Aktiengesellschaft — Commerzbank Aktiengesellschaft
DG BANK Deutsche Genossenschaftsbank — Westdeutsche Landesbank Girozentrale

ITALY

Mediobanca – Banca di Credito Finanziario S.p.A.
Banca Commerciale Italiana — Banco di Napoli
S.G.Warburg Securities

Banca Nazionale del Lavoro — Banco di Roma

Credito Italiano — Istituto Mobiliare Italiano

Banca Popolare Commercio e Industria

Banca Popolare di Milano — Banca Popolare di Verona

Banco Ambrosiano Veneto — Banco di Santo Spirito

Banco di Sicilia — Credito Romagnolo S.p.A.

Istituto Bancario San Paolo di Torino — Monte dei Paschi di Siena

JAPAN

Daiwa Securities Co. Ltd.
S.G.Warburg Securities — The Nikko Securities Co., Ltd.
The Nomura Securities Co., Ltd. — Yamaichi Securities Company, Limited

Kankaku Securities Co., Ltd. — New Japan Securities Co., Ltd.

Universal Securities Co., Ltd.

Dai-ichi Securities Co., Ltd. — Kokusai Securities Co., Ltd.

Marusan Securities Co., Ltd. — Sanyo Securities Co., Ltd.

SWITZERLAND

Credit Suisse First Boston Limited
Swiss Bank Corporation — UBS Phillips & Drew Securities Limited
S.G.Warburg Soditic (Jersey) Ltd.

Julius Baer International Ltd. — Bank J. Vontobel & Co. AG

CBI – TDB Union Bancaire Privée — Darier, Hentsch and Co.

Leu Securities Limited

Lombard Odier International Underwriters S.A.

Sarasin International Securities Ltd.

Swiss Cantobank Securities Limited — Swiss Volksbank

UNITED KINGDOM AND REPUBLIC OF IRELAND

S.G.Warburg Securities
Barclays de Zoete Wedd Securities Limited — Cazenove & Co.

Hoare Govett Corporate Finance Limited — Kleinwort Benson Securities Limited
Smith New Court Ltd — UBS Phillips & Drew Securities Limited

UNITED STATES

Goldman, Sachs & Co.
Merrill Lynch & Co. — Morgan Stanley & Co. Incorporated
S.G.Warburg Securities

Donaldson, Lufkin & Jenrette Securities Corporation — The First Boston Corporation
Kidder, Peabody & Co. Incorporated — Lehman Brothers
PaineWebber Incorporated — Rothschild Inc.

Smith Barney, Harris Upham & Co. Incorporated — Dean Witter Reynolds Inc.
Sanford C. Bernstein & Co., Inc. — Arnhold and S. Bleichroeder, Inc.

Furman Selz Incorporated — C. J. Lawrence Inc.

REST OF THE WORLD*

S.G.Warburg Securities
Creditanstalt – Bankverein — Enskilda Securities Skandinaviska Enskilda Limited

Potter Warburg Securities Limited — Unibank

Alpha Finance A.E. — Arab Banking Corporation (ABC)

Banco Bilbao Vizcaya, S.A. — Banco Nacional Ultramarino

Banco Santander de Negocios — Banco Totta & Açores

Buttle Wilson Limited — Daewoo Securities (Europe) Limited

The Development Bank of Singapore Ltd

EFISA – Engenharia Financeira, S.A.

Fondsfinans a.s — Inverlat International Inc.

National Bank of Greece — Ord Minnett Securities Limited

Oversea-Chinese Banking Corporation Limited — RZB – Austria Raiffeisen Zentralbank Oesterreich AG

Ssangyong Investment & Securities Co., Ltd.

Taiwan Securities — Union Bank of Finland Ltd

*Being the Designated Territories (as defined in Part 2 of this document) other than those comprised in any other region.

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TIMETABLE

The following times and dates are expected to apply to the International Tender Offer. All times are London time.

International Tender Offer commenced	Wednesday, 13th November, 1991
International Tender Offer ends	Friday, 6th December, 1991
International Tender Offer Price, UK Public Offer Price and final instalment announced and allocations made	Monday, 9th December, 1991
Commencement of dealings in Interim Rights in London	8.30 a.m. on Monday, 9th December, 1991
Despatch of interim certificates	on or before Wednesday, 18th December, 1991
Payment of second instalment to be made for value by	3.00 p.m. on 7th July, 1992
Payment of final instalment to be made for value by	3.00 p.m. on 2nd March, 1993

DEFINITIONS

"BT" or the "Group"	the Company and its subsidiaries, or any of them, as the context may require
"BT Shares" or "Shares"	fully paid ordinary shares of 25p each in the Company and include, in Parts 2 and 10 of this document, where the context requires, Interim Rights
"bid"	a firm (but non-binding) indication of interest in purchasing Shares under the International Tender Offer
"Combined Offers"	the UK Public Offer and the International Tender Offer
"Company"	British Telecommunications public limited company
"Director General"	The Director General of Telecommunications
"financial year"	year to 31st March
"Global Co-ordinator"	S.G.Warburg Securities in its capacity as global co-ordinator of the Combined Offers and bookrunner for the International Tender Offer
"HM Government"	Her Majesty's Government of the United Kingdom
"HM Treasury"	The Lords Commissioners of Her Majesty's Treasury
"Interim Rights"	has the meaning set out in paragraph 9 of Part 10 of this document
"International Tender Offer"	the international tender offer of Shares being co-ordinated by the Global Co-ordinator and described herein
"International Tender Offer Price"	the amount per Share at which Shares are sold under the International Tender Offer, determined in accordance with the International Tender Offer Agreement, as modified or amended, as described in Part 2 of this document
"Licence"	the public telecommunications operator licence issued to BT under the Telecommunications Act 1984 to operate its fixed-link telecommunication network
"London Stock Exchange"	The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited
"OFTEL"	The Office of Telecommunications
"RPI"	the UK retail price index
"Secretary of State"	The Secretary of State for Trade and Industry
"UK"	the United Kingdom of Great Britain and Northern Ireland
"UK Public Offer"	the separate offer for sale to the public of Shares being made by S.G.Warburg & Co. Ltd. on behalf of HM Treasury
"UK Public Offer Price"	an amount per Share which is 15p less than the International Tender Offer Price

KEY INFORMATION

PART 1

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

BT'S BUSINESS

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

FINANCIAL INFORMATION

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

Notes
(1) The financial information for BT's five financial years ended 31st March, 1991 is derived from BT's audited accounts for the relevant year.
(2) The financial information for the six month periods ended 30th September, 1990 and 1991 is derived from BT's unaudited financial results for the relevant period.
(3) Before taking account of an exceptional charge for restructuring of £390 million. BT's earnings per Share for the year ended 31st March, 1990, after taking account of this exceptional charge, were 25.0p.

MARKET STATISTICS

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

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

PART 2

THE COMBINED OFFERS

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

(a) the UK Public Offer in the UK and certain other countries of up to 904.5 million Shares (subject to increase as described below) at the UK Public Offer Price; and

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

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

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

THE UK PUBLIC OFFER

The UK Public Offer is being made by means of an offer for sale in the UK and certain other countries. Under the UK Public Offer, applications (which cannot be revoked pending acceptance by HM Treasury) must be received by 10.00 a.m., London time, on 4th December, 1991. The UK Public Offer Price will be 15p less than the International Tender Offer Price, which is expected to be determined on 9th December, 1991. Following determination of the International Tender Offer Price, the UK Public Offer Price, together with the basis of allocation of Shares sold in the UK Public Offer, will be announced. An announcement indicating provisionally the basis of allocation of Shares to be sold in the UK Public Offer (contingent upon the Combined Offers proceeding) is expected to be made on 8th December, 1991. The prospectus for the UK Public Offer will be distributed to approximately 5.25 million individuals registered with the BT Share Information Office ("Registrants") (including approximately 1.0 million individuals who, being BT shareholders or participants in the BT Employee Share Ownership Scheme, were automatically registered) and will be otherwise made widely available in the UK. Incentives are being offered to Registrants and certain other applicants in the UK Public Offer.

THE INTERNATIONAL TENDER OFFER

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

Bids must be submitted on behalf of investors by a Manager through the relevant Regional Lead Manager to the Global Co-ordinator. Bids may be so submitted from 13th November, 1991 to 5.30 p.m., London time, on 6th December, 1991 (the "Offer Period") and may be revised and updated periodically, but all final bids must be received by the Regional Lead Managers by the end of the Offer Period and be transmitted by the Regional Lead Managers to the Global Co-ordinator by 8.30 p.m., London time, on 6th December, 1991. The identity of each institutional bidder must be disclosed to the Global Co-ordinator and HM Treasury, although aggregated bids may be submitted on behalf of a number of natural persons without naming them. Bids must be made in pounds sterling in multiples of one penny per Share or at the strike price and for a minimum of 2,000 Shares, in multiples of 100 Shares. Bids on behalf of natural persons must be made for a minimum of 2,000 Shares in respect of each such person. Final bids will constitute a representation by the Manager submitting the bid that the bid represents firm demand.

Bids from each region will be communicated by the relevant Regional Lead Manager through the Global Co-ordinator to HM Treasury. On or about 9th December, 1991, HM Treasury, in consultation with the Global Co-ordinator, will determine the International Tender Offer Price (which will be the same for all purchasers in the International Tender Offer) and, based on the final bids, allocations of Shares to bidders. If a Regional Lead Manager accepts, on behalf of its syndicate, in accordance with the provisions of the International Tender Offer Agreement, the proposed allocation to its region and the International Tender Offer Price, the Managers in that syndicate will be obliged to offer the Shares comprised in the allocation to the bidders, and in the amounts, specified by HM Treasury. Bidders will be notified of the number of Shares allocated to them by the appropriate Manager and, on acceptance of their proposed allocation, they will become bound to purchase such Shares. Each Manager will be obliged to procure purchasers for or purchase for its own account all Shares which are not purchased by bidders notified of their allocation. Under the arrangements in Canada and the United States, investors have the right to take Shares in the form of American Depositary Shares ("ADSs").

PRICING AND ALLOCATIONS

The determination of the International Tender Offer Price, the number of Shares allocated to, and sold pursuant to, each of the UK Public Offer and the International Tender Offer and the basis of allocation as

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

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

As at the date of this document, without in any way affecting its discretion referred to above or the reservations referred to below and assuming sufficient demand at appropriate prices to meet the primary pricing and allocation criteria referred to above, HM Treasury would expect to allocate approximately 675 million Shares to applicants under the UK Public Offer and approximately 675 million Shares to bidders under the International Tender Offer. HM Treasury expressly reserves the right to increase or decrease each of these numbers of Shares and to increase to up to 1,575 million or decrease below 1,350 million the number of Shares offered or sold pursuant to the Combined Offers. None of these figures include the number of Shares which the Global Co-ordinator has been given the right to acquire from HM Treasury, in connection with the International Tender Offer, at the International Tender Offer Price, for the purpose of meeting over-allotments as referred to below.

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

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

Solely for the purpose of calculating certain commissions payable to Managers, a proportion of the number of Shares to be sold by HM Treasury in the International Tender Offer has been set for each regional syndicate and each Manager. These proportions are neither a limit on nor a guarantee of allocations to that region or Manager. The total amount of allocations, if any, to any regional syndicate or Manager will be determined at the time of the allocation which is expected to be on 9th December, 1991 and will not necessarily bear a relationship to the proportions of Shares set for the purpose of calculating such commissions. A summary of the commissions payable to the Managers under the International Tender Offer is set out in paragraph 6(b) of Part 10 of this document.

It is expected that the International Tender Offer Price and allocations of Shares under the International Tender Offer will be notified to Managers by the relevant Regional Lead Manager on 9th December, 1991. It is expected that Managers will notify bidders to whom Shares have been allocated. Dealings in Interim Rights are expected to commence in London at 8.30 a.m., London time, on 9th December, 1991.

In connection with the International Tender Offer, the Global Co-ordinator may over-allot or effect transactions which stabilise or maintain the market price of the Shares and/or any other securities of (or options, warrants or rights with respect to, or interests in, the Shares or other securities of) the Company at a level which might not otherwise prevail in the open market. Such transactions may be effected on the London Stock Exchange, the New York Stock Exchange or otherwise, except that no such transactions will be effected on the Tokyo Stock Exchange or The Toronto Stock Exchange. Such stabilising, if commenced, may be discontinued at any time. Any over-allotment and any stabilisation transactions will be conducted by the Global Co-ordinator as principal for the account of the several Managers and not as agent for HM Treasury. The Global Co-ordinator has undertaken to HM Treasury that any over-allotment and any stabilisation transactions will be carried out in accordance with all relevant regulatory requirements, including the rules of the UK Securities and Investments Board.

The Global Co-ordinator has been given the right, solely for the purpose of meeting over-allotments made by it in connection with the International Tender Offer, to purchase from HM Treasury an additional number of Shares up to the greater of 7½ per cent. of the number of Shares sold by HM Treasury under the Combined Offers and 15 per cent. of the number of Shares sold by HM Treasury pursuant to the International Tender

Offer. The International Tender Offer Agreement contains provisions designed to secure that the extent of any over-allotment is not disclosed. The Global Co-ordinator does not intend to disclose the extent of any stabilising transactions or the amount of any long or short position.

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

THE UK RETAIL TENDER

As part of the International Tender Offer, S.G.Warburg Securities, as a Manager for the UK and Republic of Ireland regional syndicate, has invited certain member firms of the London Stock Exchange to submit bids on behalf of such firms' clients who are Qualifying Clients (as defined in paragraph 12(i) of Part 10 of this document). Although such member firms will not be parties to the International Tender Offer Agreement, they have agreed with S.G.Warburg Securities to comply with certain obligations, including the terms upon which bids will be accepted in the International Tender Offer and certain limitations upon their activities, including their agreeing to be bound by certain restrictions applied to Managers pursuant to the Orderly Marketing Agreement referred to in paragraph 6(a) of Part 10 of this document. A summary of commissions payable to such member firms is set out in paragraph 12(i) of Part 10 of this document.

PAYMENT, DELIVERY AND OTHER TERMS

Payment for the Shares sold under the International Tender Offer at the International Tender Offer Price will be in three instalments, the first instalment being 125p per Share. The second instalment is 120p per Share and is due by 7th July, 1992 and the third instalment (which will be determined at the same time as the International Tender Offer Price) is due by 2nd March, 1993. Payment of the first instalment in respect of Shares purchased in the International Tender Offer, in the regions where it is made by means of this document, is due from Managers in pounds sterling by 2.00 p.m. on 12th December, 1991. Detailed instructions for the payment of the first instalment will be notified to Managers by the relevant Regional Lead Manager and to purchasers of Shares by Managers. The second and final instalments will be payable in accordance with the payment arrangements described in paragraph 9 of Part 10 and paragraph 4 of Part 11 of this document. The Managers (in their capacity as such) will have no responsibility for the payment of these instalments, save in respect of Shares of which they are the Purchasers (as defined in paragraph 9 of Part 10 of this document), on the dates on which such instalments become due. Set out in paragraph 9 of Part 10 of this document is a description of the instalment arrangements in respect of Shares sold in the Combined Offers.

It is expected that, subject to payment of the first instalment, interim certificates in the names of persons notified to the Regional Lead Manager for the relevant region (on behalf of HM Treasury and the Global Co-ordinator) by each Manager for such region will be despatched by post on or before 18th December, 1991 to such persons at the addresses provided by the relevant Manager for that purpose, at the risk of such persons, or will be available for collection on that day.

Part 11 of this document contains the terms and conditions upon which any person allocated Shares in the International Tender Offer will purchase such Shares.

DIVIDENDS

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

SALES RESTRICTIONS

Each Manager has agreed that, save as otherwise provided in the Orderly Marketing Agreement, which is referred to in paragraph 6(a) of Part 10 of this document, it will not prior to the Specified Time either directly or indirectly make any Prohibited Sale or make any sale of Shares (which for this purpose includes Interim Rights) or any interest in Shares to any person other than an Eligible Person.

For the purposes of these sales restrictions:—

"Designated Territories" means the countries and territories listed in the Orderly Marketing Agreement as being those countries and territories in which sales (subject to certain limitations or restrictions in the case of particular jurisdictions) of Shares in the International Tender Offer may be made;

"Eligible Person", in relation to any Manager, means any individual resident in such Manager's Region, or any corporation, firm, investment fund, pension fund, estate, trust, partnership or other entity established or incorporated in or organised under or governed by the laws of any country or territory in that Region or any political sub-division thereof excluding:—

(i) in the case of any such corporation, firm or partnership, any branch thereof outside that Region; and

(ii) any investment fund, pension fund, estate, trust or other entity organised under or governed by the laws of any country or territory in that Region or any political sub-division thereof the investment assets of which are managed on a discretionary basis by a person who is not an Eligible Person in relation to that Manager;

but including

(iii) any branch in that Region of a firm, partnership or corporation established, or incorporated in or organised under the laws of any country or territory outside that Region or any political sub-division thereof; and

(iv) any individual resident outside, or any investment fund, pension fund, estate, trust or other entity organised under or governed by the laws of any country or territory outside, that Region or any political sub-division thereof investment assets of whom or which are managed on a discretionary basis by a person who is an Eligible Person in relation to that Manager;

"Prohibited Sale" means any sale of Shares or any interest therein by any Manager to a person who is not an Eligible Person in relation to that Manager (with certain exceptions) and any sale of Shares or any interest therein which does not comply with the laws and regulations of the territory in which such sale takes place (or to which it is otherwise subject) or which is made outside the Designated Territories or within the Designated Territories but not in compliance with certain restrictions set out in the Orderly Marketing Agreement (including without prejudice to the generality of the foregoing, all requirements of all applicable regulatory authorities whether or not having the force of law);

"Region", in relation to any Manager, means the countries or territories identified as comprising the Region for the syndicate of which that Manager is a member;

"sale", in relation to any Share or any interest in a Share, means any solicitation of any indication of interest in purchasing, or solicitation of any offer to purchase, offer to sell, sale, transfer or other disposal or any agreement to sell, transfer or otherwise dispose of such Share, or such interest; and

"Specified Time" means the earliest of:— (a) a date and time agreed as such by HM Treasury and the Global Co-ordinator; (b) the time of commencement of dealings in Interim Rights on the London Stock Exchange; and (c) 8.30 a.m. on 9th January, 1992.

The sales restrictions are set out in more detail in the Orderly Marketing Agreement.

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

PART 3

INTRODUCTION

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

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

BT's turnover

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

BT'S SERVICES

UK telephone service

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

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

BT's UK call growth

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

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

Over this period, call growth has resulted both from the increase in the number of lines in service and from their usage; for example from the increased use of facsimile. The price structure for call charges is complex, varying with distance, duration, route, time of day and usage.

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

BT's exchange line connections

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

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

International telephone calls

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

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

BT's international call growth

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

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

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

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

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

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

Customer premises equipment supply

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

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

Other sales and services

Private circuits

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

Mobile communications

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

The Company owns 60 per cent. of Cellnet, one of two UK cellular telephone network operators licensed by HM Government. The other licensed operator is Vodafone. Operating since 1985, Cellnet's network reaches nearly all of the UK and covers all major populated areas. In the 1991 financial year, Cellnet increased the capacity of its systems by 50 per cent. in order to improve service quality. Cellnet is also developing a system as part of a planned pan-European digital cellular network.

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

Cellnet

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

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

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

Other activities

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

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

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

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

NETWORK MODERNISATION AND CAPITAL EXPENDITURE

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

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

Capital expenditure

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

BT's capital expenditure

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

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

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

UK network

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

Network modernisation

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

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

International networks

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

Research and development

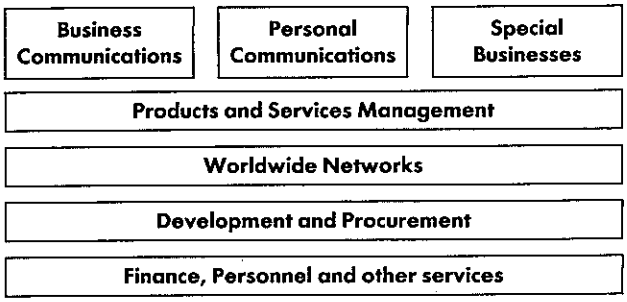
Recognising the pace of technological change in the telecommunications industry, BT undertakes a wide range of research and development activities. The major part of BT's expenditure on research and development, which in the 1991 financial year totalled £243 million, is directed towards the development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

ORGANISATION AND EMPLOYEES

Organisation

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

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



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

Employees

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

BT's employees

	At 31st March,					At 30th September,
	1987	1988	1989	1990	1991	1991
Total employees ('000)	234	237	244	246	227	220

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

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

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

QUALITY OF SERVICE

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

REGULATION, COMPETITION AND PRICES

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

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

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

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

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

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

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

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

There has recently been considerable UK press comment on the level of BT's prices and profits. The current price control arrangements will expire on 31st July, 1993. Price controls after that date would require an amendment to the Licence, either agreed by the Company with the Director General or imposed on the Company by the Director General following recommendation from the Monopolies and Mergers Commission (the "MMC") on the grounds of public interest.

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

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

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

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

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

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

PART 4

INTRODUCTION

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

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

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

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

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

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

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

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

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

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

1991 FINANCIAL YEAR

Turnover

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

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

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

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

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

Operating costs

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

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

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

Operating profit and interest

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

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

Exceptional charge

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

Profit, taxation and minority interests

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

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

Funds flow and financing

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

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

Capital expenditure

Capital expenditure on plant, equipment and property totalled £2,758 million, compared with £3,115 million in the previous year. This amount included expenditure on telephone exchanges of £799 million, compared with £952 million in the 1990 financial year. The lower capital expenditure in part reflected a reduction in orders by BT for digital exchanges in the 1990 financial year and a revision of payment patterns from the start of the 1991 financial year.

FIRST HALF OF THE 1992 FINANCIAL YEAR

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

Turnover

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

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

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

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

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

Operating costs

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

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

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

Operating profit and interest

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

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

Profit, taxation and minority interests

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

Funds flow and financing

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

Capital expenditure

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

McCAW

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

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

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

CURRENT TRADING

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

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

THE FUTURE

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

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

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

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

The current RPI minus 6.25 price control expires in July 1993. Consideration of the form of price control that may replace the current control, which is expected to begin in early 1992, would not necessarily be limited to setting the value of "x" in the RPI minus x formula, or even to price control, and could lead to more extensive changes to Licence conditions. This process could involve a reference to the Monopolies and Mergers Commission.

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

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

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

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

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

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

PART 6

BT GROUP PROFIT AND LOSS ACCOUNTS

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

BT GROUP SOURCES AND APPLICATIONS OF FUNDS STATEMENTS

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

BT GROUP BALANCE SHEETS

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

NOTES

(i) Sources of financial information

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

(ii) Significant accounting policies

Basis of preparation

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

Research and development

Expenditure on research and development is written off as incurred.

Goodwill

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

Intangible assets

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

Tangible fixed assets

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

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

Fixed asset investments

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

Pension schemes

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

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

(iii) Fixed asset investments

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

(iv) Provisions for liabilities and charges

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

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

(v) Capital and reserves

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

(vi) Pension scheme information

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

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

PART 7

HM GOVERNMENT'S INTEREST IN BT

BT Shares

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

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

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

Special Share

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

Loan Stock

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

COMMERCIAL AND OTHER RELATIONS WITH HM GOVERNMENT

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

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

ATTITUDE OF OPPOSITION PARTIES

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

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

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

MARKET PRICE AND DIVIDEND INFORMATION

PART 8

MARKET PRICES

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

BT Shares

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

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

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

DIVIDENDS

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

Net dividends per BT Share

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

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

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

REGULATION, COMPETITION AND PRICES

PART 9

UK REGULATION

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

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

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

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

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

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

The legislation could be amended during its passage through Parliament. However, HM Government has made it clear that it does not intend to make any amendments during the passage of the Bill which would have a direct financial impact on BT's profitability, and it would also resist any amendments tabled by others which would have this effect. This draft legislation contains proposals which BT believes are likely to have adverse effects on BT, certain of which may be material, but the full extent of these effects cannot be assessed until the legislation is enacted and the powers are exercised from time to time.

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

OVERSEAS REGULATION

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

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

THE BT LICENCE

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

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

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

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

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

RADIO SPECTRUM LICENCES

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

COMPETITION PRIOR TO THE REVIEW

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

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

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

THE REVIEW

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

End of the duopoly policy

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

Price controls and rate of return

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

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

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

The Director General has also confirmed that he has not conducted any investigations on these matters since then, but, having regard to the information currently available to him, nothing has come to his attention which would cause him to consider the opinion he expressed in July in relation to the 1988/89 price control to be inappropriate. In the context of the review which the Director General intends to commence early in 1992 in respect of the price control to operate after July 1993, he expects to consult fully and openly on these matters and will take proper account of the arguments raised and the impact of the recently agreed RPI minus 6.25 price control. The Director General has stated that no implications about this review should be drawn from the foregoing confirmations. See "Statement by the Director General" below.

Private circuits

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

Flexible pricing policies

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

Rebalancing

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

Interconnection charges

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

Equal access

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

Cable television and mobile services

As a result of the Review, UK broadband cable television operators, several of which have US and Canadian telephone companies (with significant telecommunications experience and financial resources) as substantial investors, will be allowed to offer voice telephony services independently of the Company or Mercury and to provide them on an integrated basis with their entertainment services. They will also be allowed greater freedom to link adjacent franchises to provide telecommunication services over a wider area. BT's participation in the cable television market will remain subject to a number of restrictions. The Broadcasting Act 1990 introduced a new system for the award by the Independent Television Commission (the "ITC") of cable television franchises by tender. ITC policy for the foreseeable future is to grant only one franchise per geographic area. The Company will be allowed to apply for franchises only through a subsidiary or associate until 31st March, 1994. Thereafter, it will be allowed to apply for such franchises in its own right. HM Government intends not to allow BT or other national public telecommunications operators to provide television delivery services nationally in their own right and this policy will not be reviewed until at least 2001. The Company is prevented by the Licence from conveying television programme services to homes and HM Government does not intend to remove this restriction until 2001, though this may be reviewed in 1998. The Company may, however, convey television programme services within its network and to business customers. It is also possible for anyone, including the Company, to act as agent for any network operator, including cable network operators, in conveying television programme services to homes.

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

PRICES

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

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

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

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

Public switched telephone services

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

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

Rebalancing

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

The Company also accepted the constraint that the annual rate of increase of the median residential customer's bill, based on a representative pattern of usage, will not exceed the annual increase in the RPI. The RPI plus 2, RPI plus 5 and median residential customer's bill constraints are now incorporated into the Licence as part of the preconditions for pricing packages being deemed to be not unduly preferential or discriminatory.

Private circuits

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

1991 price changes

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

Future price controls

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

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

As a basis for considering new price controls, the Director General is planning to issue a consultative document early in 1992, inviting views from all interested parties. A similar consultative procedure was followed when the main price control was reviewed in 1988. The Director General has stated that he considers that this timetable will allow sufficient time for him to consider how he should exercise his statutory functions, prior to the establishment of any new price controls by July 1993. The Director General is obliged to maintain unfettered discretion throughout this process.

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

	Year commencing 1st August,						
	1985	1986	1987	1988	1989	1990	1991
% RPI movement for the relevant period[1]	7.0	2.5	4.2	4.6	8.3	9.8	5.8
RPI formula in effect	-3.0	-3.0	-3.0	-3.0	-4.5	-4.5	-6.25
% permitted increase (required reduction) in prices[2]	4.1	(0.1)	1.3	2.8	3.8	5.5	(0.2)
% actual increase (reduction) in prices overall	3.7	(0.3)	—	—	3.5	5.3	(1.0)[3]

(1) Annual increase in RPI to previous June.
(2) After permitted carry forward of any unused allowance from previous years.
(3) Reflects price changes in September 1991 only.

STATEMENT BY THE DIRECTOR GENERAL

Set out below is the text of a statement given to HM Treasury by the Director General on 13th November, 1991:

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

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

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

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

1 SHARE CAPITAL AND SHARE SCHEMES

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

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

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

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

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

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

2 RIGHTS ATTACHING TO SHARES

BT Shares

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

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

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

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

Special Share

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

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

Limitation on shareholdings

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

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

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

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

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

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

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

3 INDEBTEDNESS

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

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

Note: The loan stock is controlled by HM Government. In 1984, the Company issued 22 separate series of unsecured loan stock aggregating £2,750,000,000 in principal amount, redeemable from 1985 to 2006 and carrying interest from 12¼ per cent. to 12¾ per cent. per annum.

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

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

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

Save as disclosed above, and apart from intra-group liabilities, the Group did not, at 30th September, 1991, have any loan capital (including term loans) outstanding or created but unissued, any mortgages, charges or any other borrowings or indebtedness in the nature of borrowing, or acceptance credits, hire purchase commitments, obligations under finance leases, guarantees or other material contingent liabilities.

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

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

4 WORKING CAPITAL

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

5 DIRECTORS' INTERESTS

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

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

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

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

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

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

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

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

6 SUMMARY OF OFFER AGREEMENTS

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

(a) An agreement (the "Orderly Marketing Agreement") dated 13th November, 1991 between HM Treasury (1), ABN AMRO Bank N.V. and others (the "Benelux Managers") (2), Wood Gundy Inc. and others (the "Canadian Managers") (3), Banque Indosuez and others (the "French Managers") (4), Dresdner Bank Aktiengesellschaft and others (the "German Managers") (5), Mediobanca-Banca di Credito Finanziario S.p.A. and others (the "Italian Managers") (6), Daiwa Securities Co. Ltd. and others (the "Japanese Managers") (7), Credit Suisse First Boston Limited and others (the "Swiss Managers") (8), S.G.Warburg Securities and others (the "UK Managers") (9), Goldman, Sachs & Co. and others (the "US Managers") (10), S.G.Warburg Securities and others (the "Rest of the World Managers") (11) and S.G.Warburg Securities in its capacity as Global Co-ordinator (12) which provides for the regulation of the orderly marketing of the Shares under the Combined Offers. It provides, inter alia, that the Managers for each region as defined in the agreement will (subject to limited exceptions) confine their offers and sales of Shares until the end of the initial distribution of Shares pursuant to the Combined Offers to Eligible Persons as defined in the agreement in their respective regions (as more particularly described in Part 2 of this document under "Sales Restrictions").

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

(i) each Manager has undertaken with HM Treasury to use all reasonable endeavours to procure indications of interest in purchasing Shares and may submit a bid or bids reflecting those indications of interest in the International Tender Offer;

(ii) the commitment of any Manager to procure purchasers for, or failing which to purchase, any Shares will be evidenced solely by execution and delivery on behalf of that Manager of the purchase memorandum contemplated by the agreement (the "Purchase Memorandum") which is expected to take place on 9th December, 1991;

(iii) execution of the Purchase Memorandum will constitute the agreement by the Manager with HM Treasury and the Global Co-ordinator to procure purchasers for or failing which to purchase, at the International Tender

Offer Price, the number of Shares in the Purchase Memorandum on the terms and conditions referred to in the agreement and on the terms of the Purchase Memorandum and the agreement and, on such terms, to pay for the Shares. The obligations of the Managers under the Purchase Memorandum are not conditional on dealings commencing in the Interim Rights;

(iv) each Manager has agreed that, if it becomes aware of any details relating to the allocation of Shares (as set forth or referred to in the Purchase Memorandum) to any person other than itself, or the respective numbers of Shares which are sold by HM Treasury or over-allotted and comprised in any such allocation (including the basis of allocation) prior to the Stabilisation Period End Date (being the date which is the earlier of (1) the thirtieth day after the day on which the Purchase Memorandum is executed and delivered and (2) the date agreed between HM Treasury and the Global Co-ordinator as the last date on which any stabilisation transaction may be effected by the Global Co-ordinator or its agents in accordance with the International Tender Offer Agreement), it will not disclose any such details prior to such date;

(v) HM Treasury has agreed to pay (1) to the Regional Lead Manager and co-lead Managers in each regional syndicate management commissions equal to 0.1 per cent. of the aggregate of that syndicate's management percentages of the Management Commission Base Amount and (2) to the Managers in each syndicate management commissions equal to 0.3 per cent. of that Manager's management percentage of the Management Commission Base Amount (together in each case with any UK VAT thereon). For this purpose, the Management Commission Base Amount is the value at the International Tender Offer Price of the Shares sold by HM Treasury in the International Tender Offer, unless the number of Shares so sold is less than 675 million or more than 787.5 million, in which case the Management Commission Base Amount shall be the value at the International Tender Offer Price of 675 million or 787.5 million Shares, respectively, and each Manager's management percentage is the proportion of the number of Shares to be sold in the International Tender Offer set out in the International Tender Offer Agreement. Out of such commissions, each Regional Lead Manager on behalf of the syndicate shall pay their respective legal and other expenses in connection with or arising out of the preparation or negotiation of the agreement, the Purchase Memorandum and the Orderly Marketing Agreement, except as otherwise agreed in writing with HM Treasury. All other out of pocket costs, charges and expenses of and incidental to making the International Tender Offer (together with any UK VAT thereon) duly authorised by HM Treasury shall, as between HM Treasury and the Manager, be borne by HM Treasury.

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

(vi) HM Treasury has given certain warranties and representations to the Managers and has indemnified the Managers against certain liabilities arising under the Combined Offers. The Managers have given certain warranties and undertakings to HM Treasury and indemnified HM Treasury against certain liabilities; and

(vii) the Global Co-ordinator has the option by notice to HM Treasury, given not later than the Stabilisation Period End Date, to purchase from HM Treasury at the International Tender Offer Price a number of Shares not exceeding the greater of 15 per cent. of the Shares sold by HM Treasury in the International Tender Offer and 7½ per cent. of the number of Shares sold by HM Treasury in the Combined Offers. The Global Co-ordinator may exercise the option to acquire Shares from HM Treasury in order to settle over-allotments and such exercise may be revoked in whole or in part before the end of the option period. The Global Co-ordinator shall pay in cash for all Shares in respect of which the option is exercised and not revoked. In relation to Shares in respect of which the option is revoked, the Global Co-ordinator shall transfer an equivalent number of Interim Rights to HM Treasury or, at the election of the Global Co-ordinator, make an equivalent payment in cash. Management and selling commissions at the rates referred to in paragraph (v) above shall be payable to the Global Co-ordinator on the number of Shares in respect of which the option is exercised and not revoked. The maximum number of Shares in aggregate to be sold pursuant to the Combined Offers does not include the maximum number of such additional Shares.

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

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

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

7 UK PUBLIC OFFER INCENTIVES

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

Incentives are not available in relation to Shares purchased in the International Tender Offer.

8 UK PUBLIC OFFER SELLING COMMISSIONS

The selling commissions in the UK Public Offer will depend on the method by which an application is made. Each Share Shop which is providing an application form collection service in connection with the UK Public Offer, which is not a receiving bank for the UK Public Offer, will receive from HM Treasury a commission of 30p for each application form it collects. Each Share Shop will receive from HM Treasury a commission of £1.00 for each application on a Share Shop application form relating to it, and each Employee application form on which it was validly selected as a Share Shop, in respect of which Shares are allocated. A selling commission of £1.30 will be payable in respect of each successful application on a Private Client application form. Allocations of Shares in the UK Public Offer in respect of Bulk application forms submitted on behalf of clients by certain financial intermediaries will attract selling commission at a rate of 1.25 per cent. of the value at the UK Public Offer Price of any such allocation up to £10,000, and 0.5 per cent. of the value at the UK Public Offer Price of any such allocation in excess of £10,000.

9 SUMMARY OF INSTALMENT AGREEMENT

The Shares being sold under the Combined Offers are to be paid for in three instalments, the first instalment being payable in accordance with the terms and conditions applicable to a person purchasing Shares in the International Tender Offer or the UK Public Offer, as the case may be, the second instalment on or before 7th July, 1992 and the final instalment on or before 2nd March, 1993. To enable Purchasers (as defined below) to transfer their rights to Shares without prejudicing the interests of HM Treasury, the Instalment Agreement dated 21st November, 1991 (the "Instalment Agreement"), to which every Purchaser will also be a party, has been entered into between HM Treasury, the Company, Lloyds Bank Plc (the "Agent Bank"), which will act as agent for HM Treasury in administering the provisions of the Instalment Agreement, and Lloyds Bank (Registrars) Nominees Limited (the "Nominee"), which will hold the relevant Shares as nominee for HM Treasury . The following description of the rights of persons registered as holders of Interim Rights (as defined below) is a brief summary only of the Instalment Agreement, does not purport to be complete and is qualified in its entirety by reference to the Instalment Agreement.

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

General

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

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

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

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

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

Default in respect of payments of instalments

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

Dividends

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

Capitalisation issues etc.

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

Rights issues

If the Company offers Shares or other securities to holders of Shares by way of rights, the entitlements of the Nominee as the registered holder of Shares will be offered to Purchasers pro rata to their holdings of Interim Rights, ignoring fractions, in substantially the same manner as to holders of Shares.

Other distributions of Shares

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

Transfers

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

Voting rights

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

Disclosure requirements and restrictions on ownership of Interim Rights

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

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

Inspection of the Interim Rights Register and Data Protection Act 1984

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

Amendment to the Instalment Agreement

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

Taxes, etc.

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

Miscellaneous

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

10 UK TAXATION

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

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

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

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

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

HM Treasury has agreed to pay all stamp duty and stamp duty reserve tax in respect of the transfer of Shares to the Nominee, the transfer of Shares pursuant to the Instalment

Agreement to the persons entitled to those Shares following payment of the final instalment and, except where Interim Rights are issued to nominees or agents of issuers of depositary receipts, providers of clearance services or the nominees or agents of such persons, the agreement to sell Shares by HM Treasury.

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

11 UK PERSONAL EQUITY PLANS

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

Instead of Shares being acquired by a PEP manager on behalf of an individual, and subject to the normal limits on, and conditions for, transfers into a PEP, Shares acquired by individuals under the Combined Offers (but not otherwise) are eligible for transfer by those individuals to PEP managers prepared to accept them within 42 days of their allocation.

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

12 MISCELLANEOUS

(a) The Company was incorporated under the Companies Acts 1948 to 1981 on 1st April, 1984 as a public limited company with registered number 1800000.

(b) The Company considers that no legal or arbitration proceedings are pending or threatened against the Company or any of its subsidiaries which may have or have had during the past twelve months a significant effect on the financial position of the Group taken as a whole.

(c) The Company considers that, save for the agreement referred to in paragraph 6(c) of this Part 10, there are no contracts which have been entered into by a member of the Group, not being contracts entered into in the ordinary course of business, within the two years immediately preceding the date of this document, which are or may be material.

(d) The Company considers that, save as disclosed herein, there has been no significant change in the financial or trading position of BT since 1st November, 1991, the date of publication of BT's financial results release for the six months ended 30th September, 1991.

(e) The Company owns 64.7 per cent. of the issued share capital of Sharelink Limited, which is acting as a Share Shop in connection with the UK Public Offer.

(f) BT has insurance cover to certain limits for major risks on property and major claims in connection with legal liabilities arising in the course of its operations. Otherwise, BT generally carries its own risks.

(g) As at 20th November, 1991, the Company had not been notified of any person, other than HM Treasury, interested directly or indirectly in three per cent. or more of the issued ordinary share capital of the Company or of any persons who, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

(h) Pursuant to the Telecommunications Act, in March 1985 the Secretary of State fixed a target investment limit for HM Government's shareholding in the Company after the 1984 flotation of the Company. The first target investment limit requires HM Government to ensure that the proportion of voting rights which are carried by HM Government's shareholding and which are exercisable in all circumstances at general meetings of the Company is not increased beyond the 49.8 per cent. carried by HM Government's shareholding immediately following the 1984 flotation. The Secretary of State or HM Treasury may from time to time fix a new target investment limit, which must be lower than the one previously in force. The effect of this is to prevent HM Government increasing its voting shareholding in the Company without legislation first being passed.

(i) In connection with the retail tender tranche of the International Tender Offer described under "The UK Retail Tender" in Part 2 of this document, S.G.Warburg Securities will reallow to member firms of the London Stock Exchange, out of commissions payable to S.G.Warburg Securities by HM Treasury in respect of Shares allocated to Qualifying Clients of such firms, a selling commission equal to ½ per cent. of the value at the International Tender Offer Price of such Shares. For the purposes of the retail tender tranche, "Qualifying Client" means a client of that member firm who or which is:

(i) an individual who is a resident of the UK, the Channel Islands, the Isle of Man or the Republic of Ireland (the "British Isles"); or

(ii) an individual who is a resident of any country outside the British Isles but whose funds are managed on a discretionary basis by a person located in the British Isles; or

(iii) a trust the beneficiaries of which are individuals each of which would be a Qualifying Client or the funds of which are managed on a discretionary basis by a person located in the British Isles; or

(iv) a PEP manager applying in respect of a PEP investor (in accordance with the applicable rules relating to PEPs)

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

(j) S.G.Warburg Securities and SGW are financial advisers to HM Treasury in connection with the Combined Offers. S.G.Warburg Securities and SGW or any of their connected or affiliated companies (or their employees) may have a position in Shares or other securities of (or options, warrants or rights with respect to, or interests in, Shares or other securities of) the Company and they or any of such other companies may make a market or act as a principal in any transactions in Shares or other such securities.

(k) Any person (including any natural person, company, government or political sub-division thereof) which becomes the "beneficial owner" (as defined in the United States Securities Exchange Act of 1934, as amended) of more than five per cent. of the Shares becomes subject, under the terms of that Act, to an obligation to file prescribed reports of beneficial ownership (and reports of changes in such ownership) with the United States Securities and Exchange Commission (the "SEC"), the New York Stock Exchange and the Company on a form prescribed by the SEC. For the purposes of this document, "United States" and "US" means the United States of America, its territories and possessions, any State of the United States, and the District of Columbia.

(l) For the purposes of this document, a "Canadian person" means (i) any individual resident in Canada, (ii) any corporation, partnership, firm, investment fund, pension fund, estate, trust or other entity incorporated, established or organised under or governed by the laws of Canada or any political sub-division thereof (except for a branch of a Canadian corporation, partnership or firm located outside, or a Canadian investment fund, pension fund, estate or trust investment assets of which are managed on a discretionary basis by a person located outside, Canada), (iii) any branch in Canada of a corporation, partnership or firm incorporated or established outside Canada and (iv) an individual resident outside, or any investment fund, pension fund, estate or trust organised under or governed by the laws of a jurisdiction outside, Canada the investment assets of whom or which are managed on a discretionary basis by a Canadian person described in (i), (ii) or (iii). Under the securities laws of most Canadian provinces, any person (including any individual, partnership or trustee) or company that acquires, directly or indirectly, beneficial ownership of, or the power to exercise control or direction over, 10 per cent. or more of the Shares will be required, within prescribed time periods, to issue a press release and file a report with the securities commission of each such province, The Toronto Stock Exchange and the Company, setting out prescribed details of such ownership, control or direction (or of changes in such information) and, in certain circumstances, to observe restrictions on further acquisitions of Shares.

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

(n) No prospectus in relation to the Shares has been lodged with, or registered by, the Australian Securities Commission. A person may:

(i) not (directly or indirectly) offer for subscription or purchase or issue invitations to subscribe for or buy or sell the Shares; and

(ii) not distribute any draft or definitive document in relation to any such offer, invitation or sale

in the Commonwealth of Australia, its territories or possessions ("Australia") or to any resident of Australia (including corporations and other entities organised under the laws of Australia but not including a permanent establishment of such corporation or other entity located outside Australia), except:

(iii) if the Shares are issued or allotted to, or the offer or invitation is made to:

(1) a broker or other person who is the holder of a dealers licence granted under the Corporations Law of Australia or is an exempt dealer or an exempt investment adviser for the purposes of the Corporations Law, who is, in any such case, acting as a principal;

(2) a life insurance company, investment or merchant bank or other body corporate registered under either the Life Insurance Act 1945 of Australia or the Financial Corporations Act 1974 of Australia;

(3) a person who, for the purposes of investment and securities, controls an amount of not less than A$10,000,000 (including in that amount, any amount held by an associate of the person or under a trust that the person manages);

(4) a trustee of a superannuation fund constituted under a law of Australia, or a State or Territory of Australia or a foreign country, or a trustee of a superannuation fund that has net assets of not less than A$10,000,000; or

(5) a public authority or an instrumentality or agency of the Crown (in right of Australia, or a State or Territory of Australia), which is incorporated in Australia; or

(iv) where such offer, invitation, sale or distribution is otherwise in accordance with the Corporations Law, the Corporations Regulations and any other applicable laws.

13 DOCUMENTS AVAILABLE FOR INSPECTION

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

(a) the Memorandum and Articles of Association of the Company;

(b) the agreements referred to in paragraphs 6(a), (b) and (c) of this Part 10;

(c) the Directors' service agreements and contracts of appointment referred to in paragraph 5 of this Part 10;

(d) the audited accounts of BT for the 1990 and 1991 financial years;

(e) BT's financial results release for the six months ended 30th September, 1991;

(f) the Licence; and

(g) the Instalment Agreement.

INTRODUCTION

Each person whose name is notified to the Regional Lead Manager for such person's Region on behalf of HM Treasury and the Global Co-ordinator as a person in whose name an Interim Certificate should be issued (an "Investor") will, assuming prior receipt by HM Treasury in cleared funds of the first instalment in respect of the Shares sold to such Investor, be entitled to have his name entered on the Interim Rights Register for the Company and will become a party to the Instalment Agreement. Each Investor agrees with HM Treasury, the Global Co-ordinator, the Managers, Lloyds Bank Plc and the Company to be bound by the terms and conditions contained in this Part 11 as being the terms and conditions upon which Shares, represented by that Interim Certificate, will be sold in the International Tender Offer. An Investor shall, without limitation, become so bound (if a Manager) by notifying the Regional Lead Manager for such Investor's Region on behalf of HM Treasury and the Global Co-ordinator of his name or (if not a Manager) by a Manager (on behalf of such Investor) so notifying the Regional Lead Manager of such Investor's Region on behalf of HM Treasury and the Global Co-ordinator. Each notification by a Manager shall be deemed to constitute a warranty by such Manager to the Regional Lead Manager for such Manager's Region on behalf of HM Treasury and the Global Co-ordinator that such Manager is authorised to provide such name, through the Regional Lead Manager for such Manager's Region, to HM Treasury and the Global Co-ordinator and that the person so named shall be, accordingly, so bound. The Managers' responsibilities to an Investor will cease with the delivery of Interim Certificates in respect of Shares sold to such Investor in the manner described above and, for all subsequent action required by an Investor pursuant to the terms of the Instalment Agreement, reference should be made to the International Offering Circular. The International Tender Offer Price is payable in three instalments as described in the International Offering Circular.

AGREEMENT TO PURCHASE SHARES

1. An Investor agrees to purchase from HM Treasury and/or the Global Co-ordinator, as more particularly described below, at the International Tender Offer Price, the number of Shares allocated to such Investor in the International Tender Offer and in respect of which an Interim Certificate is to be issued to such Investor in accordance with the arrangements described above.

2. Each Investor acknowledges and agrees:—

   (i) that in accordance with the terms of the International Tender Offer Agreement (as described in paragraph 6(b) of Part 10 of the International Offering Circular) the Global Co-ordinator may over-allot Shares; and

   (ii) the Shares sold to that Investor may include Shares over-allotted by the Global Co-ordinator ("Over-allotment Shares") and accordingly agrees to purchase from the Global Co-ordinator acting as principal such Over-allotment Shares; and

   (iii) the Shares sold to that Investor shall be deemed to consist of Shares sold by HM Treasury and Over-allotment Shares sold by the Global Co-ordinator acting as principal in the same proportion as the number of Shares agreed to be sold by HM Treasury in respect of which the Manager submitting a bid in whole or in part reflecting an indication of interest in acquiring Shares expressed by that Investor has agreed to procure purchasers for or itself purchase bears to the number of Over-allotment Shares in respect of which that Manager has agreed to procure purchasers for or itself purchase. Such proportion will be specified in a confidential memorandum to be executed by HM Treasury and the Global Co-ordinator on the date of execution of the Purchase Memorandum under the International Tender Offer Agreement. Unless HM Treasury and the Global Co-ordinator determine otherwise, such confidential memorandum will remain confidential to HM Treasury and the Global Co-ordinator until a date not earlier than the Stabilisation Period End Date under the International Tender Offer Agreement; and

   (iv) except as may be otherwise agreed in respect of any Investor who is a Manager, until the Stabilisation Period End Date that Investor shall be entitled to be informed only of the number of Shares allocated to that Investor; and

   (v) that Investor will have no rights against the Global Co-ordinator in respect of the Shares agreed to be sold by HM Treasury and no rights against HM Treasury in respect of the Over-allotment Shares; provided that nothing in this paragraph shall affect (a) any rights an Investor may acquire as a Purchaser upon becoming a party to the Instalment Agreement or (b) any rights of the Global Co-ordinator under the International Tender Offer Agreement.

3. An Investor will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after Shares are sold to such Investor. This does not affect any other rights such Investor may have.

PAYMENT FOR SHARES

4. Each Investor undertakes to pay the first instalment for the Shares sold to such Investor in such manner as shall be directed by the Manager submitting a bid on behalf of such Investor and to pay the second and final instalments as hereinafter described. The second instalment is due for value by 7th July, 1992 and the final instalment for value by 2nd March, 1993 (and, in each case, for value by 3.00 p.m. on that date). Following payment in full of the purchase price, HM Treasury will arrange for the Shares which such Investor has purchased to be transferred to such Investor. This transfer will not, however, occur before 9th February, 1993.

INSTALMENT AGREEMENT

5. Upon an Investor's name being notified to the Regional Lead Manager for such Investor's Region as described in the Introduction to these terms and conditions and receipt (if not already received) by HM Treasury in cleared funds of the first instalment in respect of any Share sold to such Investor, such Investor will become a party to, and will be bound by, the Instalment Agreement in respect of that Share. Accordingly, from that date such Investor will be entitled to the benefit of rights attached to that Share in accordance with the terms of the Instalment Agreement. Until that date, HM Treasury will remain entitled to the benefit of all rights attached to that Share, other than any rights the Global Co-ordinator may have in respect of its Over-allotment Shares. Upon an Investor becoming a

party to the Instalment Agreement in respect of any Share, the obligation to pay the second and final instalments in respect of that Share, and the obligation to transfer Shares to such Investor, contained in paragraph 4 above will be replaced by the corresponding obligations in the Instalment Agreement. If, at the date such Investor becomes a party to the Instalment Agreement, the second or final instalment (or both) has already fallen due and has not been paid, such Investor will be obliged to pay that instalment or those instalments in accordance with the terms of the Instalment Agreement as if such Investor were a Purchaser (as defined in the Instalment Agreement) on the due date for that instalment.

WARRANTIES

6. Each Investor warrants that:—

   (i) If the Investor is a natural person, such Investor is not under the age of majority (18 years of age in the UK) on the date of such Investor's agreement to purchase Shares under the International Tender Offer.

   (ii) The Investor is not, and is not agreeing to purchase Shares on behalf of, a Canadian person (as defined in paragraph 12(l) of Part 10 of the International Offering Circular) or an individual, corporation or entity resident in Japan and is not in the United States.

   (iii) The Investor's agreement to purchase Shares, when taken together with any application in the UK Public Offer in which such Investor has an interest or in which any person on whose behalf such Investor has agreed to purchase Shares has an interest, assuming such application were accepted in full, would not result in either such Investor or any such person having an interest (as defined in Article 37 of the Articles of Association of the Company) in shares representing 15 per cent. or more of the share capital of the Company.

   (iv) In agreeing to purchase Shares, the Investor is relying only on the International Offering Circular and not on any other information or representation concerning the Company or the Combined Offers or either of them. Such Investor agrees that no person responsible for the International Offering Circular or any part of it will have any liability for any such other information or representation.

   (v) If the laws of any place outside the UK are applicable to the Investor's agreement to purchase Shares, such Investor has complied with all such laws and none of the parties mentioned in the Introduction to these terms and conditions will infringe any laws outside the UK as a result of such Investor's agreement to purchase Shares or any actions arising from such Investor's rights and obligations under these terms and conditions, the Instalment Agreement and the Memorandum and Articles of Association of the Company.

7. (i) If the person authorising a Manager to notify the Investor's name to the Regional Lead Manager for such Investor's Region as mentioned in the Introduction is not the Investor, that person warrants that he has authority to do so on behalf of the Investor.

   (ii) If the Investor is an entity other than a natural person, the person authorising a Manager to notify the Investor's name to the Regional Lead Manager for such Investor's Region as mentioned in the Introduction warrants that he has authority to do so on behalf of the Investor.

SUPPLY AND DISCLOSURE OF INFORMATION

8. If HM Treasury or its agents request any information about such Investor's agreement to purchase Shares, such Investor must promptly disclose it to them. Upon such Investor becoming a party to the Instalment Agreement, such Investor's name(s) will be placed on the Interim Rights Register and, if such Investor pays the instalments and does not transfer those rights, subsequently on the Company's register of members. These registers are open to inspection by the public, who may take copies in return for a prescribed fee. The information supplied in, or in connection with, such Investor's agreement to purchase Shares may also be disclosed to HM Government departments (and their agents) concerned with other privatisations and to HM Treasury and its agents and members of the police forces for compiling lists of, and otherwise taking action in respect of, suspected multiple applicants in the UK Public Offer.

MISCELLANEOUS

9. The rights and remedies of HM Treasury, the Global Co-ordinator, the Managers, Lloyds Bank Plc and the Company under these terms and conditions are in addition to any rights and remedies which would otherwise be available to each of them, and the exercise or partial exercise of one will not prevent the exercise of others.

10. All documents will be sent at the Investor's risk. They may be sent by post to such Investor at the address notified to the Regional Lead Manager for such Investor's Region.

11. Each Investor agrees to be bound by the Memorandum and Articles of Association of the Company once the Shares such Investor has agreed to purchase have been transferred to such Investor.

12. The contract to purchase Shares mentioned herein will be governed by, and construed in accordance with, the laws of England. For the exclusive benefit of the parties mentioned in the Introduction to these terms and conditions each Investor will irrevocably submit to the jurisdiction of the English courts in respect of these matters. This does not prevent an action being taken against an Investor in any other jurisdiction.

13. Reference in these terms and conditions to the International Offering Circular is to the International Offering Circular dated 21st November, 1991 issued by HM Treasury relating to the offer for sale of Shares in the International Tender Offer being made other than in Canada, Japan or the United States. In these terms and conditions the expression Shares shall, where the context requires, include Interim Rights. Terms otherwise defined in the International Offering Circular and not defined in these terms and conditions have the same meanings in these terms and conditions as in the International Offering Circular. In the case of a joint agreement to purchase Shares, references to an Investor in these terms and conditions are to each of such Investors and such Investors' liability is joint and several.

14. The Global Co-ordinator will not treat an Investor as its customer for the purpose of rules made under the UK Financial Services Act 1986 by virtue of such Investor agreeing to purchase Shares. In particular, it will not owe such Investor any duties or responsibilities concerning the price of the Shares or concerning the suitability of the Shares for such Investor.

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Paul G. Bosonnet*
Deputy Chairman

Michael Bett CBE
Deputy Chairman

Michael L. Hepher
Group Managing Director

Malcolm Argent CBE
Group Director and Secretary

Sir Eric Ash CBE*

Anthony J. Booth
Managing Director, Business Communications

Geoffrey J. Mulcahy*†

Yve M. Newbold*

Barry D. Romeril
Group Finance Director

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

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The Rt. Hon. Norman Tebbit CH MP*

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