



Rights Issue Prospectus

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. When considering what action you should take, you should seek your own personal financial advice immediately from your stockbroker, bank, solicitor, accountant, fund manager or other appropriate financial adviser authorised under the Financial Services Act 1986.

Cazenove and Merrill Lynch, each of which is regulated in the United Kingdom by the Securities and Futures Authority Limited, are acting exclusively for BT and for no-one else in connection with the Rights Issue and will not be responsible to anyone other than BT for providing the protections afforded to their customers or for providing advice in relation to the Rights Issue or the contents of this document.

If you sell or have sold or otherwise transferred all of your existing BT Shares (other than ex-rights) in certificated form before 21 May 2001 (the "ex-rights date"), please send this document, together with any accompanying Provisional Allotment Letter, at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom you sell or have sold or transferred your shares for delivery to the purchaser or transferee. If your transferred BT Shares were held in uncertificated form, a claim transaction will automatically be generated by CRESTCo which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee.

The distribution of this document and/or the accompanying documents, and/or the transfer of Nil Paid Rights or Fully Paid Rights through CREST in jurisdictions other than the UK may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any of those restrictions. Any failure to comply with any of those restrictions may constitute a violation of the securities laws of any such jurisdiction.

A copy of this document, which comprises a prospectus relating to BT prepared in accordance with the listing rules made under section 142 of the Financial Services Act 1986, has been delivered to the Registrar of Companies in England and Wales for registration as required by section 149 of that Act. A copy of this document, together with a copy of the consents referred to in paragraph 17 of Part 7 and the material contracts referred to in paragraph 15 of Part 7, has been delivered for registration to the Registrar of Companies in Ireland in compliance with section 47 of the Companies Act, 1963 of Ireland as required by the European Communities (Transferable Securities and Stock Exchange) Regulations, 1992.

Copies of this document and the documents specified in paragraph 19(h) of Part 7 have been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Registrar of Companies in Hong Kong and the Securities and Futures Commission of Hong Kong take no responsibility as to the contents of any of these documents.

BT Shares are listed on the Official List and traded on the London Stock Exchange and the Tokyo Stock Exchange. BT ADSs are traded on the New York Stock Exchange and the London Stock Exchange. Application has been made to the UK Listing Authority and to the London Stock Exchange for the new BT Shares to be admitted to the Official List and to trading on the London Stock Exchange's market for listed securities. It is expected that admission of the new BT Shares to the Official List and trading on the London Stock Exchange's market for listed securities will become effective on 20 May 2001 and that dealings will commence, nil paid, in the new BT Shares on 21 May 2001. Application has also been made for the new BT ADSs to be listed on the New York Stock Exchange.

British Telecommunications public limited company

3 for 10 Rights Issue of up to 1,975,580,052 new BT Shares at 300 pence per share

The latest time and date for acceptance of the Rights Issue is 9.30 a.m. on 15 June 2001. The procedures for acceptance and payment are set out in Part 3 of this document and, for Qualifying non-CREST Shareholders only, also in the Provisional Allotment Letter.

Your attention is drawn to the letter of recommendation from the Chairman of BT which appears in Part 1 of this document.

This prospectus is intended for use only in connection with offers and sales of rights to the new BT Shares to persons outside the United States and is not to be sent or given to any person within the United States. The share rights offered in this prospectus are not being registered under the US Securities Act of 1933 for the purpose of sales outside the United States. If you have received this document and are a holder of BT ADSs or a US Holder of BT Shares you should have been sent a copy of the US Prospectus.

Qualifying non-CREST Shareholders other than those resident in Australia, Belgium, Canada, France, Japan or South Africa, will find enclosed with this document a Provisional Allotment Letter. Qualifying CREST Shareholders (none of whom will receive a Provisional Allotment Letter) other than those resident in Australia, Belgium, Canada, France, Japan or South Africa are expected to receive a credit to their appropriate stock accounts in CREST in respect of the Nil Paid Rights to which they are entitled on 14 May 2001. The Nil Paid Rights so credited are expected to be enabled for settlement by CRESTCo as soon as practicable after admission of the new BT Shares to the Official List. If the Nil Paid Rights are for any reason not enabled by 8.00 a.m. on 21 May 2001, a Provisional Allotment Letter will be sent to each Qualifying CREST Shareholder in substitution for the Nil Paid Rights credited to its stock account in CREST. Qualifying CREST Shareholders who are CREST personal members should refer to their CREST sponsors regarding the action to be taken in connection with this document and the Rights Issue.

The attention of Overseas Shareholders is drawn to paragraph 7 of Part 3 of this document.

Holdings of BT Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue.

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Cautionary statement regarding forward-looking statements

This document contains certain statements that are or may be forward-looking with respect to (i) the benefits and advantages of the Group's restructuring; (ii) the Group's plans to demerge BT Wireless, the structure of the demerger and the composition of the demerged group; (iii) the Group's plans for Yell, BT Ignite and Concert; (iv) the growth of, and opportunities available, in the communications industry and the Group's positioning to take advantage of those opportunities; and (v) the Group's debt reduction plans. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. There are a number of factors that could cause actual events and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to, statements made in Part 6 of this document as well as: (i) the Group's ability to realise the benefits expected to be derived from the restructuring; (ii) the Group's ability to complete plans to demerge BT Wireless and to achieve an appropriate structure for the demerged group; (iii) the Group's ability to deliver its plans for Yell, BT Ignite and Concert; (iv) the Group's ability to benefit from the growth of, and capitalise on opportunities available in, the communications industry; (v) the Group's ability to reduce its debts; and (vi) material adverse changes in market conditions.

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

CREST SERVICE DESK TELEPHONE NUMBER : 0845 964 5648 (+44 20 7849 0199 if you are calling from the Republic of Ireland or +44 845 964 5648 if you are calling from any other place outside the UK)
(Monday to Friday, 8.00 a.m. to 8.00 p.m.)

Notes

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

If you do not know whether you hold your BT Shares in certificated form or in CREST you should contact the Shareholder Helpline.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

2001

Record Date for the Rights Issue	close of business on 9 May
Nil Paid Rights and Fully Paid Rights enabled in CREST	by 8.00 a.m. on 21 May
Dealings in new BT Shares, nil paid, commence on the London Stock Exchange	8.00 a.m. on 21 May
Recommended latest time for requesting withdrawal of Nil Paid Rights from CREST (i.e. if your Nil Paid Rights are in CREST and you wish to convert them into certificated form)	4.30 p.m. on 7 June
Latest time for depositing renounced Provisional Allotment Letters, nil paid, into CREST or for dematerialising Nil Paid Rights into a CREST stock account	3.00 p.m. on 11 June
Latest time and date for splitting Provisional Allotment Letters, nil paid	3.00 p.m. on 12 June
Dealings in new BT Shares, fully paid, commence on the London Stock Exchange	8.00 a.m. on 14 June
Latest time and date for acceptance	9.30 a.m. on 15 June
Recommended latest time and date for requesting withdrawal of Fully Paid Rights from CREST (i.e. if your Fully Paid Rights are in CREST and you wish to convert them to certificated form)	4.30 p.m. on 22 June
Latest time and date for splitting Provisional Allotment Letters, fully paid	3.00 p.m. on 27 June
Latest time for depositing renounced Provisional Allotment Letters, fully paid, into CREST or for dematerialising Fully Paid Rights into a CREST stock account	3.00 p.m. on 27 June
Latest time and date for registration of renunciation of Provisional Allotment Letters, fully paid	3.00 p.m. on 29 June
New BT Shares credited to CREST stock accounts	2 July
Despatch of definitive share certificates for new BT Shares	by 16 July

Notes

- (i) *Part 2 of this prospectus answers some of the questions most often asked by shareholders about rights issues and the procedure for acceptance and payment. If you hold your BT Shares in certificated form and have further questions please telephone the Shareholder Helpline on **Freephone 0808 100 4141** (+44 20 7864 9074 if you are calling from outside the UK). This Helpline is available from 8.30 a.m. to 8.30 p.m., Monday to Friday and from 10.00 a.m. to 4.30 p.m. on Saturdays, Sundays and UK public holidays. If you hold your BT Shares in CREST and you have any questions regarding the CREST procedures, please telephone the CREST Service Desk on 0845 964 5648 (+44 20 7849 0199, if you are calling from the Republic of Ireland, or +44 845 964 5648, if you are calling from any other place outside the UK). The CREST Service Desk is available from 8.00 a.m. to 8.00 p.m., Monday to Friday. Please note that calls may be monitored or recorded. For legal reasons, the Shareholder Helpline and the CREST Service Desk will only be able to provide you with information contained in this document (other than information relating to the Company's register of members and CREST processes respectively) and will be unable to give advice on the merits of the Rights Issue or to provide financial advice.*
- (ii) *The dates set out in the expected timetable of principal events above and mentioned throughout this document and in the Provisional Allotment Letters may be adjusted by BT, in which event details of the new dates will be notified to the UK Listing Authority and to the London Stock Exchange and, where appropriate, to BT Shareholders.*
- (iii) *References in this document are to London time unless otherwise stated.*

DEFINITIONS

The following definitions apply throughout this document, except where the context requires otherwise:

“3G”	third generation mobile telecommunications
“Admission”, “introduction” or “listing”	admission of the new BT Shares, nil paid, (i) to the Official List and (ii) to trading on the London Stock Exchange’s market for listed securities becoming effective in accordance with, respectively, the Listing Rules and the Admission and Disclosure Standards
“Admission and Disclosure Standards”	the requirements contained in the publication “Admission and Disclosure Standards” dated May 2000 containing, among other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange’s market for listed securities
“ADR Depositary” or “BT ADR Depositary”	Morgan Guaranty Trust Company of New York in its capacity as the BT ADR Depositary under the BT ADS Deposit Agreement
“AT&T”	AT&T Corp.
“Board” or “Directors”	the directors of the Company, whose names are set out on page 8 of this document
“BT” or the “Company”	British Telecommunications public limited company, incorporated and registered in England and Wales under the Companies Acts 1948 to 1981 with Registered Number 1800000
“BT ADR”	an American Depositary Receipt evidencing BT ADSs
“BT ADS”	an American Depositary Share, representing 10 BT Shares, issued by the ADR Depositary in accordance with the BT ADS Deposit Agreement
“BT ADS Deposit Agreement”	the Deposit Agreement dated as of 16 November 1984 and amended and restated as of 21 November 1991 and as further amended and restated as of 10 May 2001 between BT, the ADR Depositary and holders from time to time of BT ADSs issued under it
“BT Articles”	the articles of association of BT
“BT Ignite”	BT’s internet solutions and broadband IP business
“BT Option Schemes”	the BT Schemes, other than the BT Incentive Share Plan, the BT Retention Share Plan, the BT Deferred Bonus Plan, the BT Executive Share Plan, the BT Performance Share Plan, the BT Employee Share Ownership Scheme and the BT Employee Stock Purchase Plan
“BT Retail”	BT’s communications service provider to the residential and business markets in the UK
“BT Schemes”	the BT Incentive Share Plan, the BT Retention Share Plan, the BT Deferred Bonus Plan, the BT Executive Share Plan, the BT Performance Share Plan, the BT Employee Share Ownership Scheme, the BT Employee Stock Purchase Plan, the BT Global Share Option Plan, the BT Employee Sharesave Scheme 1994, the BT International Employee Sharesave Scheme, the BT Share Option Scheme, the BT Worldwide Share Option Scheme and the BT US Stock Option Plan
“BT Shareholders”	holders of BT Shares
“BT Shares”	ordinary shares with a nominal value of 25 pence each in the share capital of BT
“BT Wholesale”	BT’s provider of network services within the UK to communications companies, network operators and service providers
“BT Wireless”	BT’s controlled wireless assets in Europe, together with Genie

“BTopenworld”	BT’s UK ISPs and ISP-related portals
“business day”	a day (excluding Saturdays and Sundays or public holidays in England and Wales) on which banks generally are open for business in London for the transaction of normal banking business
“Cazenove”	Cazenove & Co. Ltd
“Cegetel”	Cegetel SA
“certificated” or “in certificated form”	where a share or other security is not in uncertificated form
“Companies Act”	the Companies Act 1985, as amended
“Concert”	the global communications joint venture owned equally by BT and AT&T
“CREST”	the relevant system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by CRESTCo in accordance with the Regulations
“CRESTCo”	CRESTCo Limited, the operator of CREST
“CREST Courier and Sorting Service” or “CCSS”	the CREST Courier and Sorting Service established by CRESTCo to facilitate, <i>inter alia</i> , the deposit and withdrawal of securities
“CREST Manual”	the rules governing the operation of CREST, consisting of the CREST Reference Manual, CREST International Manual, CREST Central Counterparty Service Manual, CREST Rules, Registrars Service Standards, Settlement Discipline Rules, CCSS Operations Manual, Daily Timetable, CREST Application Procedures and CREST Glossary of Terms (all as defined in the CREST Glossary of Terms promulgated by CRESTCo on 15 July 1996 and as amended since)
“CREST member”	a person who has been admitted by CRESTCo as a system-member (as defined in the Regulations)
“CREST participant”	a person who is, in relation to CREST, a system-participant (as defined in the Regulations)
“CREST personal member”	a CREST member admitted to CREST as a personal member
“CREST sponsor”	a CREST participant admitted to CREST as a CREST sponsor
“DSL”	digital subscriber line
“EU”	the European Union
“Fully Paid Rights”	rights to acquire the new BT Shares, fully paid
“Future BT”	the businesses comprising the Group, excluding BT Wireless and Yell
“GPRS”	General Packet Radio Service
“Great Britain”	England, Scotland and Wales
“Group”	BT and its subsidiary undertakings
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“IP”	internet protocol
“IPO”	initial public offering
“ISAs”	Individual Savings Accounts
“ISP”	internet service provider

DEFINITIONS

“Issue Price”	300 pence per new BT Share
“Listing Rules”	the rules and regulations made by the UK Listing Authority under Part IV of the Financial Services Act 1986 as amended from time to time
“London Stock Exchange”	London Stock Exchange plc
“member account ID”	the identification code or number attached to any member account in CREST
“Merrill Lynch”	Merrill Lynch International
“NetCo”	BT’s UK fixed line wholesale business
“new BT ADR”	an American Depositary Receipt evidencing new BT ADSs
“new BT ADS”	an American Depositary Share representing 10 new BT Shares, issued by the ADR Depositary in accordance with the provisions of the BT ADR Depositary Agreement
“new BT Shares”	up to 1,975,580,052 new BT Shares of nominal value 25 pence to be issued in connection with the Rights Issue
“Nil Paid Rights”	the rights to acquire the new BT Shares, nil paid
“Official List”	the Official List of the UK Listing Authority
“Overseas Shareholders”	BT Shareholders with registered addresses outside the UK or who are citizens or residents of countries outside the UK
“participant ID”	the identification code or membership number used in CREST to identify a particular CREST member or other CREST participant
“PEPs”	Personal Equity Plans
“Provisional Allotment Letters” or “PALs”	the renounceable Provisional Allotment Letters sent with this document to Qualifying non-CREST Shareholders (other than certain Overseas Shareholders) in respect of the new BT Shares provisionally allotted to them pursuant to the Rights Issue
“Qualifying CREST Shareholders”	Qualifying Shareholders holding BT Shares in uncertificated form
“Qualifying non-CREST Shareholders”	Qualifying Shareholders holding BT Shares in certificated form
“Qualifying Shareholders”	holders of BT Shares on the register of members of the Company at the Record Date
“Record Date”	close of business on 9 May 2001
“Regulations”	the Uncertificated Securities Regulations 1995 (SI 1995/3272), as amended
“Rights Issue”	the issue by way of rights of new BT Shares to Qualifying Shareholders on the basis described in this document and, in the case of Qualifying non-CREST Shareholders, in the Provisional Allotment Letters
“SEC”	the US Securities and Exchange Commission
“Securities Act”	the US Securities Act of 1933, as amended
“Shareholder Helpline”	the helpline set up for BT Shareholders that will advise shareholders about how to complete the Provisional Allotment Letter (if they are Qualifying non-CREST Shareholders) and answer questions about the Rights Issue
“SMEs”	small and medium sized enterprises
“stock account”	an account within a member account in CREST to which a holding of a particular share or other security in CREST is credited

“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“UK Listing Authority”	the Financial Services Authority in its capacity as the competent authority for the purposes of Part IV of the Financial Services Act 1986 and in the exercise of its functions in respect of the admission to the Official List otherwise than in accordance with Part IV of the Financial Services Act 1986
“uncertificated” or “in uncertificated form”	recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST, and title to which, by virtue of the Regulations, may be transferred by means of CREST
“UMTS Network”	universal mobile telecommunications system network – a 3G wireless communications network
“US” or “United States”	the United States of America, its territories and possessions
“US Holders”	BT Shareholders with US registered addresses
“US Prospectus”	the prospectus forming part of an effective registration statement on Form F-3 filed by BT with the SEC in connection with the Rights Issue
“Viag Interkom”	Viag Interkom GmbH & Co
“Yell”	BT’s international directories and e-commerce business

DIRECTORS, COMPANY SECRETARY AND ADVISERS

DIRECTORS

Sir Christopher Bland
Sir Peter Bonfield, CBE
Philip Hampton
Lord Marshall of Knightsbridge
Sir Anthony Greener
Helen Alexander
Dr Iain Anderson
Maarten van den Bergh
Louis Hughes
Neville Isdell
June de Moller
Sir John Weston

all of BT Centre, 81 Newgate Street, London EC1A 7AJ.

COMPANY SECRETARY

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LEGAL ADVISERS TO CAZENOVE AND MERRILL LYNCH ON US LAW

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Chairman
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Non-Executive Joint Deputy Chairman
Non-Executive Director
Non-Executive Director
Non-Executive Director
Non-Executive Director
Non-Executive Director
Non-Executive Director
Non-Executive Director

LEGAL ADVISERS TO THE COMPANY ON ENGLISH LAW

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AUDITORS

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REGISTRARS

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA

RECEIVING AGENTS

Lloyds TSB Registrars
Antholin House
71 Queen Street
London EC4N 1SL

PART 1: LETTER FROM THE CHAIRMAN OF BT



10 May 2001

To BT Shareholders, and for information only, to participants in the BT Employee Share Ownership Scheme

Chairman of the Board

Introduction

Your Board announced on 10 May 2001 that BT is proposing to raise approximately £5.9 billion, net of expenses, by the issue of up to 1,975,580,052 new BT Shares at a price of 300 pence per share. The issue is being made by way of a rights issue to Qualifying Shareholders on the basis of 3 new BT Shares for every 10 existing BT Shares held at the close of business on 9 May 2001. The Issue Price of 300 pence per new BT Share represents a 47 per cent. discount to the closing middle market price of 568.5 pence per BT Share on 9 May 2001, the last business day before the announcement of the Rights Issue. This letter sets out the reasons for, and provides details of, the Rights Issue. The Rights Issue is not being underwritten.

In addition, your Board announced proposals to transform the Group structure, including:

- the positioning of Future BT as a focused European network and retail business which will include BT Retail, BTopenworld, BT Wholesale and BT Ignite with Concert providing international connectivity; and
- the intention to demerge BT Wireless, which will principally comprise our wholly owned wireless businesses.

This letter contains further details of the strategy and prospects for these businesses.

This document also contains BT's preliminary final results announcement for the year ended 31 March 2001 released on 10 May 2001, which is set out in Part 4.

Background to and reasons for the Rights Issue

We are one of Europe's leading communications companies, offering high quality innovative voice, broadband, data, internet and wireless services. Over the past 18 months, we have made significant cash investments in pursuit of growth opportunities. We have obtained 3G wireless licences in the key markets of the UK, Germany and The Netherlands, and have built new IP broadband networks in the UK and elsewhere in Europe. We have taken full control of our fixed and wireless operations in Germany and The Netherlands, and acquired Esat Telecom and Esat Digifone in the Republic of Ireland. These investments have substantially increased our net debt position from approximately £8.7 billion on 31 March 2000 to approximately £27.9 billion on 31 March 2001.

Recognising the increasingly diversified nature of our activities, during 2000 we embarked on a process of structural change, moving away from a geographically based organisational structure to one which emphasises accountability by separate lines of business. Our objectives were to enable each line of business to focus on its own strategic goals and the needs of its customers, and furthermore to allow us to respond more effectively to the rapidly changing nature of our markets. In July 2000, we created the following lines of business, alongside our UK communications services business:

- BT Wireless – an international mobile business, with particular strengths in mobile voice, data and next generation services;
- BT Ignite – an international data-centric, broadband IP and internet solutions business focused on corporate and wholesale markets;
- BTopenworld – a mass-market internet business focused increasingly on broadband services; and
- Yell – an international directories and e-commerce business.

PART 1: LETTER FROM THE CHAIRMAN OF BT

In October 2000, management of the UK communications services business was split as follows:

- BT Retail – the UK's leading communications business and the prime UK channel to market for BT's other businesses; and
- BT Wholesale – the provider of network services and solutions to communication companies, network operators and service providers, including BT Retail, BT Wireless and BT Ignite.

These six businesses operate alongside Concert, the global joint venture with AT&T launched in January 2000, which is a leading global communications provider for multinational business customers, international carriers and ISPs.

In November 2000, we announced details of the Group's restructuring plan which was drawn up following the identification of the potential benefits which should follow from a separation of the Group into a number of operating units with defined management accountability. We recognised the merits of separate stock market listings, following such restructuring, to improve the focus on value generation through the creation of distinct equity for each quoted entity. Our plan was to optimise the positioning of our individual businesses within their respective markets. We said we would focus on Western Europe and Japan and seek separate listings for up to 25 per cent. of BT Wireless and Yell and a possible separate listing of BT Ignite, to be reviewed by the end of 2001. In addition, we described proposals to create a new holding company to enhance corporate flexibility and provide scope for further subsidiary listings where advantageous to shareholders. We also detailed plans to create a new network company, NetCo, which would be both structurally and managerially separate. Following this corporate reorganisation, and subject to the satisfactory outcome of necessary discussions with the Government and OfTel, our intention was to seek a separate listing for up to 25 per cent. of NetCo.

During 2000, we had borrowed to finance acquisitions with the intention of reducing the level of indebtedness by asset sales and other means. We identified the need to introduce new equity capital into the business to support the reduction in the unsustainable level of Group debt and we indicated our intention to raise new equity through the sale of minority stakes, notably of BT Wireless.

Our aim was to reduce the net debt of the Group by December 2001 by at least £10 billion using the cash proceeds from the issue of equity in these various IPOs, together with the proceeds of disposals of non-core businesses and assets.

Implementing structural change

Rights Issue

The weakness of the IPO market, particularly for telecommunications companies, has caused us to review whether the sale of equity in Yell and BT Wireless still constitutes the best option to strengthen the Group's capital base. We believe that under current market conditions the price at which these shares could be sold in an IPO would lead to an unacceptable level of dilution to BT Shareholders as a result of the transfer of value to new investors.

Your Board has therefore concluded that shareholders' interests are best served by a Rights Issue to existing BT Shareholders. The Rights Issue introduces new equity at the Group level and permits the avoidance of any transfer of value from existing BT Shareholders. Furthermore, it enables the implementation of structural change.

The Rights Issue is proposed to raise approximately £5.9 billion, after expenses, which, together with the cash from disposals already announced, should allow us to meet our debt reduction target of £10 billion by December 2001. Any debt assumed by Yell or BT Wireless on demerger or proceeds received from the sale of Yell will further contribute to debt reduction. We expect net debt to increase as a result of net cash outflows from our planned capital expenditure and interest payments even after taking into account proceeds from our restructuring plans. However, our debt reduction and cash generation focus continues and our target is now to reduce net debt to between £15 billion and £20 billion in Future BT by 31 March 2002.

We remain committed to management actions to ensure the financial strength of the Group. These include the Rights Issue, the demerger of BT Wireless, the creation of a new holding company, our programme of non-core business and asset disposals and the halt in dividend payments, described further below. We are also focusing capital expenditure on projects with higher and more immediate financial returns. We have set a target for capital expenditure of £4.9 billion for the year ending March 2002, compared with £5 billion spent by the Group in the year ended 31 March 2001, before taking into account the capital expenditure of Viag Interkom prior to it becoming a subsidiary.

Demerger of BT Wireless

We now intend to demerge BT Wireless, which we expect will include all of BT's wireless assets in the UK (BT Cellnet), Isle of Man (Manx Telecom), Germany (Viag Interkom), the Republic of Ireland (Esat Digifone) and The Netherlands (Telfort). BT Wireless will also include Genie, one of Europe's leading mobile internet portals. BT Shareholders will benefit directly from all the value created by the BT Wireless business and its enhanced ability to participate in any consolidation of the European wireless sector. BT Shareholders should in due course receive detailed proposals relating to the demerger of BT Wireless, which it is proposed will take place towards the end of the year. As a consequence of the demerger, BT Shareholders will become shareholders in BT Wireless and separately in Future BT and both focused independent businesses will be committed to value creation. We expect both companies to be included in the FTSE100.

Creation of a new holding company

We continue with our plans to create a new holding company to give us corporate flexibility and to facilitate other potential acquisitions, demergers, disposals or IPOs. We have determined that in order to demerge BT Wireless efficiently, the new holding company structure should be put in place at the same time as the demerger. The new holding company structure will be implemented through a court-approved scheme of arrangement and the Board intends to seek shareholder approval for this move at an extraordinary general meeting expected to be held towards the end of the year.

Yell

We are reviewing our plans for Yell and are currently considering proposals to sell or demerge this business, pending a ruling from the Secretary of State for Trade and Industry on a report produced by the Office of Fair Trading.

Disposals

We continue with our programme of non-core business and asset disposals.

On 4 May 2001, we announced that we had agreed, in principle, to sell our interest in Maxis Communications in Malaysia for £350 million. This transaction is subject to regulatory and other approvals.

We announced on 2 May 2001 that we had agreed to sell our interests in Japan Telecom, J-Phone and Airtel SA to Vodafone for £4.8 billion in cash. The transaction values the Japanese investments at £3.7 billion and the investment in Airtel at £1.1 billion. The overall impact of the combined transaction, net of the costs of exercising an option in the J-Phone regional operating companies, will be to reduce BT's net debt by £4.4 billion. Completion of this transaction is conditional upon relevant regulatory and procedural approvals in Europe and Japan.

We announced on 1 May 2001 that as a result of becoming a less centralised group we had decided to vacate and sell our headquarters in London.

In January 2001, we announced that we were in negotiations to realise the value of our UK property portfolio through the mechanism of a sale and leaseback. This, we believe, should enable us to take a more flexible approach to our office arrangements and building requirements. However, we intend to retain the freehold and exclusive right to occupy our operational buildings. In April 2001, Tereal Group, a 50:50 joint venture between Land Securities Trillium and the William Pears Group, was selected as the preferred bidder for their proposed acquisition of the BT property portfolio and the subsequent provision of certain buildings and management services to BT.

In November 2000, we sold our 34 per cent. interest in sunrise communications, a telecommunication joint venture in Switzerland, for £464 million.

Dividends

As part of BT's debt reduction and restructuring plans, your Board has decided that there will be no final dividend in respect of the year ended 31 March 2001 and that there will be no interim dividend for the year ending 31 March 2002. The total cost of the dividends for the full year ended 31 March 2000 was approximately £1.4 billion.

Future dividend policy will be decided by the individual listed companies, taking into account their respective capital structures, cash requirements and the markets in which they operate. The Board expects that Future BT will recommend a final dividend in respect of the year ending 31 March 2002.

Strategy and Outlook

Future BT

Future BT will be a focused European network and retail business concentrating on voice and data services. Its aim is to create value based on service excellence, its brand leadership, its large scale networks and its existing customer base. It will also develop and market new higher value broadband and internet products and services. Future BT will comprise principally four separately managed lines of business, BT Retail, BTopenworld, BT Wholesale and BT Ignite, with Concert providing international connectivity. It will have a balanced portfolio of businesses with well-established, market-leading and cash generative UK retail and wholesale businesses and, in BT Ignite and BTopenworld, rapidly developing businesses in internet solutions and broadband in the UK and elsewhere in Europe. We are discussing a variety of strategic alternatives to the Concert joint venture, which could include all, or a substantial portion of the business currently within BT Ignite. See “Discussions with AT&T regarding Concert and BT Ignite” below. On a pro forma basis, turnover of Future BT would have been £17.3 billion with earnings before interest, tax, depreciation and amortisation of £5.8 billion for the year ended 31 March 2001. Through focusing capital expenditure on projects offering higher and more immediate financial returns, our aim is to reduce capital expenditure from approximately £3.9 billion in the year ended 31 March 2001 to £3.4 billion in the year ending 31 March 2002 and our expectation is for capital expenditure in the medium term to be approximately £3.5 billion per annum. Furthermore, productivity improvements and cost savings will be sought and initiatives to reduce costs totalling approximately £575 million have been identified for the year ending 31 March 2002. A brief description of each business is set out below.

BT Retail

BT Retail is the UK's largest communications service provider to the residential and business markets and is one of the UK's leading brands. BT Retail has more than 21 million business and residential customers in the UK. It has an extensive product and service portfolio covering voice, data, internet and multimedia and offers managed and packaged communications solutions.

BT Retail's key strengths are its distribution and service capabilities and its extensive customer base and customer relationships. It has introduced new products (such as broadband) and innovative pricing policies (such as BT Together). It will continue to deliver digital solutions supported by BTopenworld and wireless solutions supported by BT Cellnet, a subsidiary of BT Wireless. We estimate that the total addressable market is worth £28 billion (Source: Analysys).

The most recent Oftel statistics show that to September 2000, BT Retail has a 64 per cent. market share of UK fixed call revenue. Since that time we believe we have seen a slowing in the rate of loss of market share, which declined by 4.5 percentage points in the year to September 2000. At 31 March 2001, BT Retail had 28.9 million customer lines within the UK equating to a market share of approximately 82 per cent. The number of exchange lines in the UK has been increasing, reflecting growth in demand for communication services.

In a very competitive market, BT Retail's strategy is to maintain turnover and earnings before interest, tax, depreciation and amortisation margins in the medium term, at 2001 levels by seeking ongoing productivity improvements in existing businesses and new business opportunities in higher value internet and broadband services.

BTopenworld

BTopenworld brings together our UK ISPs and ISP-related portals.

We believe that BTopenworld is well positioned to meet the needs of the second internet wave characterised by new broadband technologies that support services that are “always on”, localised, personalised, faster and video and audio rich. BTopenworld expects to continue to focus its ISP activities on the UK market, benefiting from BT's brand, distribution channels and other capabilities. In addition, we believe there are substantial new market opportunities that BTopenworld can address including the delivery of entertainment and other applications/solutions to the home and office.

BTopenworld is growing fast. It is one of the UK's leading ISPs to SMEs and in un-metered services and is the UK's market leader for DSL broadband services.

BTopenworld's strategy focuses on growing average revenue per customer through added value services such as narrowband internet, fast internet and video centric services.

BT Wholesale

BT Wholesale provides network services within the UK to communications companies, network operators and service providers. Together BT Retail, BT Ignite and BT Wireless currently account for some 70 per cent. of BT Wholesale's turnover, the majority of which is subject to regulatory controls. Your Directors estimate that BT Wholesale has a 65 per cent. share of a market valued at £17 billion and that there is a medium-term outlook for market growth of 7 to 9 per cent. per annum.

BT Wholesale will build on its reputation for delivery of wholesale network solutions to BT Retail and other communications companies. BT Wholesale's strategy is to extract efficiencies from the scale and scope of its operations, broaden its customer base and expand next generation services by, among other things, satisfying demand for bandwidth and applying new technology to boost capacity, broaden its product base and lower costs. We believe this should minimise erosion of market share and generate attractive returns on capital.

BT Wholesale also aims to reduce its dependence on its regulated business and grow its sales to other communications companies. The Directors estimate that BT Wholesale currently has an external market share of 35 per cent. and is aiming to grow turnover in this segment in excess of 25 per cent. per annum.

In the year to March 2001, the business incurred capital expenditure of £2.3 billion and anticipates that its future capital expenditure will be in the region of £2 billion per annum over the medium term. We plan through tight controls on operating costs and capital expenditure to ensure that the current level of free cash flow is at least maintained over the medium term.

The decision with respect to the listing of this business will be made in 2002, and is subject to, amongst other factors, consents and the satisfactory outcome of necessary discussions with the Government and the regulator, Oftel.

BT Ignite

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

BT Ignite has established a strong European footprint, serving over 400,000 business customers with 52,000 route kilometres of fibre connecting 250 cities and with 21 content hosting centres. Across Europe, BT Ignite owns its own infrastructure but is primarily a service and marketing business using its own and BT Retail's sales force of 4,000 employees, including 2,000 solutions consultants. It sells direct to businesses in Europe and sells to businesses in the UK through BT Retail's sales force.

Building on its position as a leading business in the European services market, as measured by customer and revenue base, BT Ignite plans to continue to build its revenues from the high end of the value chain — valued added services and complex solutions — from current levels of over 50 per cent. of revenue. It aims to use its large sales force to add more business customers and increase revenue per customer by selling more of these higher value products and migrating customers towards tailored services, such as moving customers through hosting and applications to solutions. Its strategy for moving into profitability also includes increasing the throughput in its existing network infrastructure of cables and data hosting to benefit from operational gearing. We also expect to generate synergies across BT Ignite by establishing functional responsibilities, including single network management and single product management across the business. We are discussing a variety of strategic alternatives to the Concert joint venture which could include all or a substantial portion of the business currently with in BT Ignite. See "Discussions with AT&T regarding Concert and BT Ignite" below.

Earnings before interest, tax, depreciation and amortisation are targeted to approach 15 to 20 per cent. of turnover over the medium term and capital expenditure is targeted to be approximately £1 billion per annum compared to £0.9 billion for the year ended 31 March 2001. The growth in turnover is targeted at in excess of 15 per cent. per annum in the medium term.

Concert

Concert is the global communications joint venture owned equally by BT and AT&T. It combines what were the trans-border assets and operations of BT and AT&T, including their international networks, all their international traffic, and their international products for business customers. Concert's strategy is to build on its position as a leading global communications

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provider for multinational business customers, international carriers and ISPs worldwide. See “Discussions with AT&T regarding Concert and BT Ignite” below.

Discussions with AT&T regarding Concert and BT Ignite

We and AT&T are discussing ways to improve the performance of the business and strengthen the scope of relationship between us and AT&T in business services. These discussions include a variety of strategic alternatives to the Concert joint venture, including the sale to, or other business combination of our business services operations with, AT&T’s business services unit upon its planned separation from the remainder of AT&T. Such a transaction could include all or a substantial portion of our business service operations, including BT Ignite and our interest in Concert, in exchange for some mixture of cash, equity and/or other instruments in the combined business. These discussions may or may not lead to any sale or other business combination and may or may not lead to any change in the existing alliance arrangements. As possible alternatives to such a transaction, we have also been considering a narrowing of Concert’s business scope, as well as its termination as a joint venture. There can be no assurances, however, that agreement could be reached with AT&T with regard to either of such alternatives.

Your Board believes that the BT Ignite and Concert businesses will generate potentially significant value for the Group in the future. Your Board will keep under review whether this value is best achieved for shareholders by a combination of these businesses with AT&T’s business services unit, a disposal of all or part of the businesses or their separation from BT by way of IPO or demerger from BT. Where necessary, we will seek the approval of our shareholders.

Other businesses

A number of other business units including Information Systems Engineering, fleet operations, logistics and procurement services and BT Exact Technologies, a world renowned research and development capability, will form part of Future BT. It is currently intended that the Group’s 26 per cent. shareholding in Cegetel, a leading French telecommunications company, be retained within BT.

Yell

Yell is a leading provider of classified advertising directories and associated products and services, principally to small and medium sized enterprises and consumers in the United Kingdom and the United States. In the 2000 financial year, Yell distributed in the UK approximately 28.8 million copies of directories to households and businesses, and published 861,000 advertisements on behalf of 417,000 advertisers. In the 2000 financial year, Yellow Book, Yell’s US business, distributed approximately 17.5 million copies of directories to households and businesses and published 1,155,000 advertisements on behalf of 170,000 advertisers.

The Board is currently considering plans to sell or demerge this business pending a ruling from the Secretary of State for Trade and Industry on a report produced by the Office of Fair Trading.

BT Wireless

Following demerger, BT Wireless will provide BT Shareholders with the opportunity to participate directly in the growth of mobile telecommunications. It has a major European footprint with wholly owned operations in the UK (BT Cellnet), Isle of Man (Manx Telecom), Germany (Viag Interkom), The Netherlands (Telfort) and the Republic of Ireland (Esat Digifone). BT Wireless also includes Genie, which is one of Europe’s leading mobile internet portals. BT Wireless has a portfolio that combines established businesses in the UK and the Republic of Ireland with relatively new and immature ventures in Germany and The Netherlands which are currently loss making but which have high growth potential.

BT Wireless now covers territories with a total population of over 161 million. At 31 March 2001, BT Cellnet had 11.2 million customers and Esat Digifone had 1.1 million customers. In Germany and The Netherlands the BT Wireless businesses have seen significant growth since launch in 1998 and at 31 March 2001 had over 3.7 million and 0.9 million customers, respectively. At the end of March 2001 Genie had operations in six countries in Europe and around 4 million registered users globally. BT Wireless has a strong position in the UK and Irish wireless markets where in each case at 31 March 2001 it had the second largest market share by customer base and a strong position in the business market. The Directors estimate that as at 31 March 2001 BT Wireless had market shares of 26 per cent., 7 per cent., 8 per cent. and 41 per cent. in the UK, Germany, The Netherlands and Republic of Ireland respectively.

BT Wireless owns third generation licences to operate 3G mobile services in the UK, Germany and The Netherlands, all territories where it has already launched GPRS services. It also has a 3G licence in the Isle of Man. The application process for gaining one of only four 3G licences in the Republic of Ireland is expected to commence shortly.

BT Wireless's strategy is to attract and retain high value customers and increase revenues per customer by positioning itself as a leader in the European mobile data market. Being wholly owned, the wireless businesses will be managed on a unified basis, facilitating the development of common technology and the swift roll out of services such as the Genie mobile internet portal and associated content and applications across the BT Wireless networks. BT Wireless has developed relationships with a large number of application and content developers, including through its applications developer forum. It will seek productivity improvements through these cross-business synergies and seek network sharing options with other operators to reduce build out costs where allowed.

On a pro forma basis, turnover would have been approximately £4.1 billion for the year to 31 March 2001 and earnings before interest, tax, depreciation and amortisation would have been approximately breakeven. Capital expenditure for 2001 amounted to £1.1 billion, before taking into account capital expenditure of Viag Interkom prior to it becoming a subsidiary. Our aim over the medium term is to improve earnings before interest, tax, depreciation and amortisation margins and bring cumulative capital expenditure as a percentage of cumulative turnover, towards the European average for mobile telecommunications businesses.

Note and Bond Holders

The Board is mindful of BT's obligations to the holders of its outstanding notes and bonds and has consulted with The Law Debenture Trust Corporation p.l.c. which is trustee of certain of the notes and bonds. The trustee has taken independent legal and financial advice and has confirmed to BT that, subject to certain conditions being met, it will not take any steps in relation to the demerger of BT Wireless. The principal condition is the successful completion of the Rights Issue; others include the information provided to the trustee remaining accurate and no new and materially adverse factor emerging. Further certification will be required by the trustee prior to implementation of the demerger.

Preliminary final results, current trading and prospects

On 10 May 2001, BT announced its preliminary final results which show group turnover of £20,427 million for the year ended 31 March 2001, an increase of 9.1 per cent. over the £18,715 million achieved last year. Earnings before interest, tax depreciation and amortisation showed an increase of 0.8 per cent. to £6,492 million. Profit before taxation, exceptional items and goodwill amortisation amounted to £2,072 million, a decrease of 33.2 per cent. on 2000, while earnings per share before exceptional items and goodwill amortisation fell from 34.2 pence to 20.5 pence. The results include a charge of £3,000 million relating to the impairment of goodwill in connection with the acquisition of Viag Interkom. Taking this into account, the overall loss per share for the year ended 31 March 2001 amounted to 27.7 pence compared with earnings per share of 31.7 pence for the previous year.

The Directors believe that current trading and prospects for the current financial year are satisfactory and that the restructuring proposals will enhance the prospects of the Group.

Principal terms of the Rights Issue

1,975,580,052 new BT Shares are being offered in connection with the Rights Issue, with a view to raising approximately £5.9 billion, after expenses. The Issue Price of 300 pence per new BT Share represents a 47 per cent. discount to the closing middle market price of 568.5 pence per BT Share on 9 May 2001, the last business day before the announcement of the Rights Issue.

Qualifying Shareholders are being offered new BT Shares at a price of 300 pence per new BT Share on the following basis:

3 new BT Shares for every 10 existing BT Shares

held at the close of business on 9 May 2001 and so in proportion for any other number of BT Shares then held. Entitlements to fractions of new BT Shares will be rounded down and will not be allotted to Qualifying Shareholders. The number of new BT Shares equal to the aggregated fractions will be sold or the benefit of the Company. Accordingly BT Shareholders with fewer than 4 BT Shares will not be entitled to any new BT Shares.

PART 1: LETTER FROM THE CHAIRMAN OF BT

Based on the closing middle-market price of a BT Share on 9 May 2001 (the last business day before the announcement of the Rights Issue) of 568.5 pence and the proposed Issue Price of 300 pence for each new BT Share, the theoretical ex-rights price of the BT Shares is 507 pence. For an explanation of this calculation, see paragraph 18 of Part 7 of this document.

The Rights Issue is conditional upon Admission becoming effective by not later than 8.00 a.m. on 21 May 2001 (or such later time and/or date as Cazenove, Merrill Lynch and the Company may agree (being not later than 3.00 p.m. on 29 May 2001)).

We expect Admission to become effective on 20 May 2001 and dealings in the new BT Shares, nil paid, to commence on 21 May 2001.

Full take-up of entitlements under the Rights Issue would result in the issue of 1,975,580,052 new BT Shares (representing approximately 23 per cent. of the issued ordinary share capital of BT, as enlarged by the Rights Issue). The new BT Shares, when issued and fully paid, will rank *pari passu* in all respects with existing issued BT Shares.

Action to be taken

If you are a Qualifying non-CREST Shareholder, unless you have a registered address in Australia, Belgium, Canada, France, Japan or South Africa, you will find enclosed with this document a Provisional Allotment Letter. This shows the number of new BT Shares that you are entitled to take up and contains full details regarding the procedure for acceptance and payment, renunciation, splitting and registration in respect of the new BT Shares.

If you sell or have sold or otherwise transferred all of your existing BT Shares before 21 May 2001 (the “ex-rights date”), you will not be entitled to participate in the Rights Issue. However, the purchaser or transferee of your BT Shares may be entitled to participate in the Rights Issue in your place. In this case, please send this document, together, if you are a Qualifying non-CREST Shareholder, with the enclosed Provisional Allotment Letter duly renounced on Form X on page 4 of the Provisional Allotment Letter, immediately to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was made, for delivery to the purchaser or transferee.

If you are a Qualifying CREST Shareholder, no Provisional Allotment Letter is enclosed and, unless you are a Qualifying CREST Shareholder with a registered address in Australia, Belgium, Canada, France, Japan or South Africa, you will receive a credit to your appropriate stock account in CREST in respect of the Nil Paid Rights to which you are entitled. If you are a Qualifying CREST Shareholder with a registered address in Australia, Canada, France, Japan or South Africa, no Nil Paid Rights will be credited to your stock account. Please see paragraph 7(c) of Part 3 of this document for further details.

The latest time for acceptance under the Rights Issue will, unless otherwise announced to the Company Announcements Office of the London Stock Exchange by the Company, be 9.30 a.m. on 15 June 2001. The procedure for acceptance and payment depends on whether, at the time at which acceptance and payment is made, the Nil Paid Rights are in certificated form (that is, are represented by a Provisional Allotment Letter) or are in uncertificated form (that is, are in CREST). The procedures for acceptance and payment are set out in Part 3 of this document. Further details also appear in the Provisional Allotment Letters that are being sent with this document to Qualifying non-CREST Shareholders.

Qualifying CREST Shareholders who are CREST personal members should refer to their CREST sponsors regarding the action to be taken in connection with this document and the Rights Issue.

Taxation

Information regarding taxation in the UK and certain other jurisdictions in connection with the Rights Issue is set out in paragraphs 9 to 12 of Part 7 of this document. BT Shareholders who are in any doubt as to their tax position, or who are subject to tax in any other jurisdiction, should consult their professional adviser as soon as possible.

Overseas Shareholders

Information for holders of BT Shares who have registered addresses outside the UK or who are citizens or residents of countries other than the UK, appears in paragraph 7 of Part 3 of this document, which sets out the restrictions applicable to such persons. If you are an Overseas Shareholder, it is important that you read that part of this document.

To comply with US securities laws, the Rights Issue is being made to holders of BT ADSs and US Holders of BT Shares pursuant to an effective registration statement filed with the SEC. Holders of BT ADSs and US Holders of BT Shares should read the US Prospectus which will be sent to them. If such holders do not receive a copy of the US Prospectus, a copy can be obtained from

the US information agent, Georgeson Shareholder Communications, or from the ADR Depositary at the address set out in paragraph 7(b) of Part 3 of this document.

BT Option Schemes

In the case of the BT Option Schemes, the Board proposes to adjust the number of BT Shares in respect of which options may be exercised and the price at which those BT Shares may be acquired to take account of the Rights Issue. The attention of participants under the BT Schemes is drawn to the information which appears in the paragraph entitled “BT Schemes” in paragraph 4 of Part 7 of this document.

Further information

Your attention is drawn to the additional information set out in Part 7 of this document.

Part 2 of this Prospectus answers some of the questions most often asked by shareholders about rights issues and the procedure for acceptance and payment.

If you have any further questions please telephone the Shareholder Helpline on *Freefone 0808 100 4141* (+44 20 7864 9074 if you are calling from outside the UK). This Helpline is available from 8.30 a.m. to 8.30 p.m. Monday to Friday and from 10.00 a.m. to 4.30 p.m. on Saturdays, Sundays and UK public holidays. If you hold your BT Shares in CREST and you have any questions regarding the CREST procedures, please telephone the CREST Service Desk on 0845 964 5648 (+44 20 7849 0199 if you are calling from the Republic of Ireland or +44 845 964 5648, if calling from any other place outside the UK). The CREST Service Desk is available from 8.00 a.m. to 8.00 p.m. Monday to Friday. Please note that calls may be monitored or recorded. For legal reasons, the Shareholder Helpline and the CREST Service Desk will only be able to provide you with information contained in this document (other than information relating to the Company’s register of members and CREST processes respectively) and will be unable to give advice on the merits of the Rights Issue or to provide financial advice.

If you do not know whether you hold your BT Shares in certificated form or in CREST, you should contact the Shareholder Helpline on the telephone number above.

Holders of BT ADSs and US Holders should refer to paragraph 7(b) of this document of Part 3 and the US Prospectus.

Recommendation

Your Board, which has received financial advice in relation to the Rights Issue from Cazenove and Merrill Lynch, considers that the Rights Issue is in the best interests of BT and its shareholders as a whole. In providing its advice to the Board, Cazenove and Merrill Lynch have placed reliance on the Directors’ commercial assessment of the Rights Issue and BT’s funding requirements. The Directors intend to take up their full entitlements in respect of their own beneficial holdings of BT Shares, which together amount to 48,464 BT Shares.

*Yours sincerely,
Christopher Bland*

Sir Christopher Bland
Chairman

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PART 2: SOME QUESTIONS AND ANSWERS ON THE RIGHTS ISSUE

These questions and answers are split into sections.

Section A answers questions you may have of a general nature.

Section B answers questions you may have in respect of the procedures for BT Shareholders who hold their BT Shares in certificated form. Note Sections A and D may still apply to you.

Section C answers questions you may have in respect of the equivalent procedures for BT Shareholders who hold their BT Shares in CREST. Note Sections A and D may still apply to you.

Section D answers some detailed questions about your rights and the actions you may need to take and is applicable to BT Shares whether held in certificated form **or** in CREST.

The questions and answers set out in this Part 2 are intended to be generic only and, as such, you should read Part 3 of this document, for full details of what action you should take. If you are in any doubt as to what action you should take, please consult your stockbroker, bank, solicitor, accountant, fund manager or other appropriate financial adviser.

If you do not know whether you hold your BT Shares in certificated form or in CREST, you should contact the Shareholder Helpline on **Freefone 0808 100 4141** (+44 20 7864 9074 if you are calling from outside the UK).

SECTION A: GENERAL

1. What is a rights issue?

Rights issues are a way for companies to raise money. They do this by issuing shares and giving their existing shareholders a right of first refusal to buy these shares in proportion to their existing shareholdings. For example, a 1 for 3 rights issue means that a shareholder is entitled to buy one new share for every three currently held. This Rights Issue is 3 for 10; that is, an offer of 3 new BT Shares for every 10 BT Shares held at the close of business on 9 May 2001 (the Record Date for the Rights Issue).

New shares are typically offered in a rights issue at a discount to the current share price. Because of this discount, the right to buy the new shares is potentially valuable. In this Rights Issue, the Issue Price represents a 47 per cent. discount to the closing middle market price of 568.5 pence per BT Share on 9 May 2001, the latest practicable date before the announcement of the Rights Issue.

If you do not want to buy the new BT Shares to which you are entitled, you can instead sell your rights to those shares and receive the net proceeds in cash. This is referred to as dealing “nil paid”.

SECTION B: BT SHARES IN CERTIFICATED FORM

2. What are my options and what should I do with the Provisional Allotment Letter?

With this document, Qualifying non-CREST Shareholders (unless your registered address is in Australia, Belgium, Canada, France, Japan or South Africa) will have received a Provisional Allotment Letter. This shows:

in Box 1: how many BT Shares you held at the close of business on 9 May 2001 (the Record Date for the Rights Issue);

in Box 2: how many new BT Shares you are entitled to buy; and

in Box 3: how much you need to pay if you want to take up your rights in full.

(a) If you want to take up your rights in full

If you want to take up your rights in full to subscribe for the new BT Shares to which you are entitled, all you need to do is send the Provisional Allotment Letter, together with your cheque for the full amount shown in Box 3, payable to “Lloyds

TSB Bank plc – BT Rights Issue” and crossed “A/C payee only”, to the address shown on the front of the Provisional Allotment Letter to arrive before 9.30 a.m. on 15 June 2001. You can use the enclosed reply-paid envelope. Paragraph 3(b) of Part 3 of this document has full instructions on how to accept and pay for your new BT Shares. These instructions are also set out in the Provisional Allotment Letter. You will be required to pay in full for all the rights you take up. A definitive share certificate will be sent to you for the new BT Shares you buy.

You will only need your Provisional Allotment Letter to be returned to you if you want to deal in your Fully Paid Rights. Your Provisional Allotment Letter will not be returned to you unless you tick Box 4 on page 1 of the Provisional Allotment Letter. Your definitive share certificate is expected to be despatched to you by 16 July 2001.

(b) If you do not want to take up your rights at all

If you do not want to take up your rights, you do not need to do anything. If you do not return your Provisional Allotment Letter by 9.30 a.m. on 15 June 2001, we have made arrangements under which Cazenove and Merrill Lynch will try to find investors to take up your rights by 3.00 p.m. on 21 June 2001. If they do find investors and are able to achieve a premium over the Issue Price and the related expenses of procuring those investors (including any irrecoverable value added tax), you will be sent a cheque for the amount of that premium provided that this is £3.00 or more. Cheques are expected to be despatched by 5 July 2001 and will be sent to your address appearing on BT's register of members.

(c) If you want to take up some but not all of your rights

If you want to take up some but not all of your rights and wish to sell some or all of those you do not want to take up, you should first apply for split Provisional Allotment Letters by completing Form X on page 4 of the Provisional Allotment Letter, and returning it to Lloyds TSB Registrars, Antholin House, 71 Queen Street, London EC4N 1SL to be received by 3.00 p.m. on 12 June 2001, the last time and date for splitting Provisional Allotment Letters, nil paid, together with a covering letter stating the number of split Provisional Allotment Letters required and the number of Nil Paid Rights to be comprised in each split Provisional Allotment Letter. You should then deliver the split Provisional Allotment Letter representing the new BT Shares you wish to accept together with your cheque to Lloyds TSB Registrars to be received by 9.30 a.m. on 15 June 2001, the last date and time for acceptance and payment in full.

Alternatively if you want only to take up some of your rights, you should complete Form X on page 4 of the Provisional Allotment Letter and return it to Lloyds TSB Registrars, Antholin House, 71 Queen Street, London EC4N 1SL, together with a covering letter confirming the number of new BT Shares you wish to take up, together with a cheque to pay for the appropriate number of shares. In this case the Provisional Allotment Letter and cheque must be received by Lloyds TSB Registrars by 3.00 p.m. on 12 June 2001, the last date and time for splitting Provisional Allotment Letters, nil paid.

3. How do I transfer my rights into the CREST system?

If you are a Qualifying non-CREST Shareholder, but are a CREST member and want your new BT Shares to be in uncertificated form, you should complete Form X and the CREST Deposit Form (both on page 4 of the Provisional Allotment Letter), and ensure it is delivered to the CREST Courier and Sorting Service to be received by 3.00 p.m. on 11 June 2001 at the latest. CREST personal members should arrange for their CREST sponsors to do this.

If you have transferred your rights into the CREST system, you should refer to paragraph 4 of Part 3 of this document for details on how to pay for the new BT Shares.

4. How do I know if I am eligible to participate in the Rights Issue?

If you have received a Provisional Allotment Letter with this document then you should be eligible to participate in the Rights Issue (as long as you have not sold all of your BT Shares before 21 May 2001 (the ex-rights date)).

5. What if I have not received a Provisional Allotment Letter?

If you have not received a Provisional Allotment Letter with this document, and you do not hold your shares in CREST, this probably means that you are not eligible to participate in the Rights Issue. Some Qualifying Shareholders, however,

PART 2: SOME QUESTIONS AND ANSWERS ON THE RIGHTS ISSUE

will not have received a Provisional Allotment Letter with this document but may still be able to participate in the Rights Issue; namely:

- Qualifying CREST Shareholders (please see section C below);
- Qualifying non-CREST Shareholders who bought BT Shares before 21 May 2001 but were not registered as the holders of those BT Shares at the close of business on 9 May 2001 (see question 6 below); and
- certain Overseas Shareholders who can prove that the offer under the Rights Issue can lawfully be made to them without contravention of any relevant legal requirements (see question 25 below).

If you have not received a Provisional Allotment Letter but think that you should have received one, please contact the Shareholder Helpline on **Freephone 0808 100 4141** (+44 20 7864 9074 if you are calling from outside the UK).

6. If I buy or have bought BT Shares before 21 May 2001 (the date that trading in the Nil Paid Rights commences) will I be eligible to participate in the Rights Issue?

If you buy or have bought BT Shares before 21 May 2001 but were not registered as the holder of those BT Shares on the Record Date for the Rights Issue (9 May 2001), you may still be eligible to participate in the Rights Issue. If you are in any doubt, please consult your stockbroker, bank or other appropriate financial adviser, or whoever arranged your share purchase, to ensure you claim your entitlement.

You will not be entitled to Nil Paid Rights in respect of any BT Shares acquired on or after 21 May 2001.

7. What should I do if I sell or have sold or transferred all or some of the shares shown in Box 1 of the Provisional Allotment Letter before 21 May 2001?

If you sell or have sold or transferred all of your BT Shares before 21 May 2001, you should complete Form X on page 4 of the Provisional Allotment Letter and send the entire Provisional Allotment Letter together with this document and the accompanying leaflet to the stockbroker, bank or other appropriate financial adviser through whom you made the sale or transfer.

If you sell or have sold or transferred only some of your holding of BT Shares before 21 May 2001, you will need to complete Form X on page 4 of the Provisional Allotment Letter and consult the stockbroker, bank or other appropriate financial adviser through whom you made the sale or transfer, before taking any action, with regard to the balance of rights due to you.

8. How many new BT Shares am I entitled to acquire?

Box 2 on page 1 of the Provisional Allotment Letter shows the number of new BT Shares you are entitled to acquire if you are a Qualifying non-CREST Shareholder. All Qualifying non-CREST Shareholders (except certain Overseas Shareholders) are being sent a Provisional Allotment Letter with this document.

9. What should I do if I think my holding of BT Shares (as shown in Box 1 on page 1 of the Provisional Allotment Letter) is incorrect?

If you have bought or sold BT Shares recently, your transaction may not have been entered on the register of members before the Record Date for the Rights Issue. See questions 5 and 6 above for what you should do in this case.

Otherwise, if you are concerned about the figure in Box 1, please call the Shareholder Helpline on **Freephone 0808 100 4141** (+44 20 7864 9074 if you are calling from outside the UK).

10. If I take up my rights, when will I receive my new share certificate?

If you take up your rights under the Rights Issue, share certificates for the new BT Shares are expected to be posted by 16 July 2001.

SECTION C: BT SHARES IN CREST

11. How do I know if I am eligible to participate in the Rights Issue?

If you are a Qualifying CREST Shareholder (save as mentioned below), your CREST stock account(s) will be credited with your entitlement to Nil Paid Rights. The stock account(s) to be credited will be the account(s) under the participant ID and member account ID that apply to your BT Shares on the Record Date. The Nil Paid Rights are expected to be credited to your CREST stock account(s) and enabled by 8.00 a.m. on 21 May 2001. If you are a CREST personal member, you should consult your CREST sponsor if you wish to check that your account has been credited with your entitlement to Nil Paid Rights. The CREST stock accounts of Overseas Shareholders with registered addresses in Australia, Belgium, Canada, France, Japan or South Africa will not be credited with Nil Paid Rights. Overseas Shareholders should refer to paragraph 7 of Part 3 of this document.

12. How do I take up my rights using the CREST system?

If you are a Qualifying CREST Shareholder you should refer to paragraph 4 of Part 3 of this document for details on how to take up and pay for your rights.

If you are a CREST member you should ensure that a Many-to-Many (“MTM”) instruction has been input by 9.30 a.m. on 15 June 2001. If your BT Shares are held by a nominee or you are a CREST personal member you should speak directly to the stockbroker who looks after your stock or your CREST sponsor (as appropriate) who will be able to help you. If you have further questions, particularly of a technical nature regarding acceptance through the CREST system, you should telephone the CREST Service Desk on 0845 964 5648 (+44 20 7849 0199, if you are calling from the Republic of Ireland, or +44 845 964 5648, if you are calling from any other place outside the UK).

13. If I buy or have bought BT Shares before 21 May 2001 (the date that trading in the Nil Paid Rights commences), will I be eligible to participate in the Rights Issue?

If you buy or have bought BT Shares before 21 May 2001, but were not registered as the holder of those BT Shares at the Record Date for the Rights Issue (9 May 2001), you may still be eligible to participate in the Rights Issue. CRESTCo will raise claims in the normal manner in respect of your purchase and your Nil Paid Rights will be credited to your stock account(s) on settlement of those claims.

You will not be entitled to Nil Paid Rights in respect of any BT Shares acquired on or after 21 May 2001.

14. What should I do if I sell or have sold or transferred all or some of my BT Shares before 21 May 2001?

You do not have to take any action except, where you sell or have sold or transferred all of your BT Shares, to send this document to the purchaser or transferee or to the stockbroker, bank or other financial adviser through whom you made the sale or transfer. A claim transaction in respect of that sale or transfer will automatically be generated by CRESTCo which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee.

15. How many new BT Shares am I entitled to acquire?

Your stock account will be credited with Nil Paid Rights in respect of the number of new BT Shares to which you are entitled based on the number of BT Shares you hold on the Record Date. You can also view the claim transactions in respect of purchases/sales effected after this date. If you are a CREST personal member, you should consult your CREST sponsor.

16. What should I do if I think my holding of BT Shares is incorrect?

If you have bought or sold BT Shares recently, your transaction may not have been entered on the register of members before the Record Date for the Rights Issue.

If you are concerned about the number of Nil Paid Rights with which your stock account has been credited, please call the Shareholder Helpline on **Freefone 0808 100 4141** (+44 20 7864 9074 if you are calling from outside the UK).

17. If I take up my rights, when will new BT Shares be credited to my CREST stock account(s)?

If you take up your rights under the Rights Issue, new BT Shares will be credited to the CREST stock account(s) in which you hold your Fully Paid Rights on 2 July 2001.

SECTION D: FURTHER PROCEDURES FOR BT SHARES WHETHER IN CERTIFICATED FORM OR IN CREST

18. What happens if the number of BT Shares I hold is not exactly divisible by 10? Am I entitled to fractions of the shares?

Your entitlement is calculated by multiplying your holding of BT Shares by 3 and dividing the result by 10. If the result is not a whole number, your entitlement will be rounded down, meaning that you will not receive a new BT Share in respect of the fractional entitlement. The new BT Shares representing the aggregated fractional entitlements of all BT Shareholders will be sold for the benefit of the Company.

19. Will I be taxed if I take up or sell my rights or if my rights are sold on my behalf?

If you are resident in the UK for tax purposes, you will not have to pay UK tax when you take up your rights, although the Rights Issue will affect the amount of UK tax you may pay when you sell your BT Shares. However, you may be subject to capital gains tax on any proceeds you receive from the sale of your rights (unless, generally, the proceeds do not exceed £3,000, although in that case the amount of UK tax you may pay when you sell your BT Shares will be affected).

Further information for Qualifying Shareholders who are resident in the UK for tax purposes is contained in paragraph 9 of Part 7 of this document. Information for Qualifying Shareholders who are resident in the Republic of Ireland, Germany or The Netherlands is contained in paragraphs 10 to 12 of Part 7 of this document. **Qualifying Shareholders who are in any doubt as to their tax position, or who are subject to tax in any other jurisdiction, should consult their professional adviser as soon as possible.**

20. I understand that there is a period when there is trading in the Nil Paid Rights. What does this mean?

If you do not want to buy the new BT Shares being offered to you under the Rights Issue, you can instead sell or transfer your rights (called "Nil Paid Rights") to those new BT Shares and receive the net proceeds of the sale or transfer in cash. This is referred to as dealing "nil paid". This means that, between 21 May 2001 and 13 June 2001, you can either purchase BT Shares (which will not carry any entitlement to participate in the Rights Issue) or you can trade in the Nil Paid Rights.

If you sell or transfer all or some of your Nil Paid Rights and you hold your BT Shares in certificated form, you will need to complete Form X, the form of renunciation, on page 4 of the Provisional Allotment Letter and send it to the stockbroker, bank or other agent, through or by whom the sale or transfer was effected, to be forwarded to the purchaser or transferee.

If you buy Nil Paid Rights, you are buying an entitlement to take up the new BT Shares, subject to your paying for them in accordance with the terms of the Rights Issue. Any seller of Nil Paid Rights who holds his BT Shares in certificated form will need to forward to you his Provisional Allotment Letter (with Form X completed) for you to complete and return, with your cheque, by 9.30 a.m. on 15 June 2001, in accordance with the instructions on the Provisional Allotment Letter. If you are a CREST member or CREST personal member and you wish to hold your Nil Paid Rights in uncertificated form in CREST then you should send the Provisional Allotment Letter with Form X and the CREST Deposit Form on page 4 completed (in the case of a CREST member) to the CREST Courier and Sorting Service or (in the case of a CREST personal member) to your CREST sponsor by 3.00 p.m. on 11 June 2001 at the latest.

Qualifying CREST Shareholders and, subject to dematerialisation of their Nil Paid Rights as set out in the Provisional Allotment Letter, Qualifying non-CREST Shareholders who are CREST members or CREST personal members, can transfer Nil Paid Rights, in whole or in part, by means of CREST in the same manner as any other security that is admitted to CREST. Please consult your CREST sponsor or stockbroker, bank or other appropriate financial adviser, or whoever arranged your share purchase, for details.

21. What if I want to sell the new BT Shares I have paid for?

If you are a Qualifying non-CREST Shareholder, provided the new BT Shares have been paid for and you have requested the return of the receipted Provisional Allotment Letter, you can transfer the Fully Paid Rights by completing Form X, the

form of renunciation, on the back of the receipted Provisional Allotment Letter in accordance with the instructions set out on page 4 of the Provisional Allotment Letter until 3.00 p.m. on 29 June 2001. See paragraph 3(e) of Part 3 of this document for more details.

After that date, you will be able to sell your new BT Shares in the normal way. However, the share certificate relating to your new BT Shares is expected to be despatched to you by 16 July 2001. Pending despatch of such share certificate, instruments of transfer may, be certified by Lloyds TSB Registrars against the register.

If you hold your new BT Shares and/or rights in CREST, you may transfer them in the same manner as any other security that is admitted to CREST. See paragraph 4(e) of Part 3 of this document for more details. Please consult your stockbroker, bank or other appropriate financial adviser, or whoever arranged your share purchase, for details.

22. Are the new BT Shares to be issued under the Rights Issue entitled to a final dividend?

No. As part of BT's debt reduction and restructuring plans, your Board has decided that there will be no final dividend for the year ended 31 March 2001 and there will be no interim dividend for the year ending 31 March 2002. The total cost of the dividends for the full year ended 31 March 2000 was approximately £1.4 billion.

Future dividend policy will be decided by the individual listed companies taking into account their respective capital structures, cash requirements and the markets in which they operate. The Board expects that Future BT will recommend a final dividend for the year ending 31 March 2002.

23. Do I need to comply with the Money Laundering Regulations (as set out in paragraph 3(c) and 4(c) of Part 3 of this document)?

If you are a Qualifying non-CREST Shareholder, you do not need to follow these procedures if the value of the new BT Shares you are subscribing for is less than £8,500 or if you pay for them by a cheque drawn on an account in your own name and that account is one which is held with an EU- or UK-regulated bank or building society. If you are a Qualifying CREST Shareholder, you will not generally need to comply with the Money Laundering Regulations unless you apply to take up all or some of your entitlement to Nil Paid Rights as agent for one or more persons and you are not an EU- or UK-regulated financial institution.

Qualifying non-CREST Shareholders should refer to paragraph 3(c) of Part 3 of this document and Qualifying CREST Shareholders should refer to paragraph 4(c) of Part 3 of this document for a fuller description of the requirements of the Money Laundering Regulations.

24. What if I am entitled to BT Shares under a BT Scheme?

Participants in BT Schemes will be advised separately of adjustments (if any) to their rights or as to any entitlement to participate in the Rights Issue.

25. What should I do if I live outside the UK?

Your ability to take up rights to new BT Shares may be affected by the laws of the country in which you live and you should take professional advice about any formalities you need to observe. Shareholders resident outside the UK should refer to paragraph 7 of Part 3 of this document – particularly those resident in Australia, Belgium, Canada, France, Japan or South Africa.

To comply with US securities laws, the Rights Issue is being made to holders of BT ADSs and US Holders of BT Shares pursuant to an effective registration statement filed with the SEC. If you are such a holder and you have not received a copy of the US Prospectus which forms part of the registration statement, you should contact the US information agent, Georgeson Shareholder Communications Inc., or the ADR Depositary at the addresses set out in paragraph 7(b) of Part 3 of this document to obtain a copy.

26. What do I do if I have any further queries about the Rights Issue or what action I should take?

If you have any other questions, please telephone the Shareholder Helpline on **Freefone 0808 100 4141** (+44 20 7864 9074 if you are calling from outside the UK). This Helpline is available from 8.30 a.m. to 8.30 p.m., Monday to Friday and from 10.00 a.m. to 4.30 p.m. on Saturdays, Sundays and UK public holidays. If you hold your BT Shares in CREST and you have any questions regarding the CREST procedures, please telephone the CREST Service Desk on 0845 964 5648 (+44 20 7849 0199 if you are calling from the Republic of Ireland, or +44 845 964 5648 if you are calling from any other place outside the UK.) The CREST Service Desk is available from 8.00 a.m. to 8.00 p.m. Monday to Friday. Please note that calls may be monitored or recorded. For legal reasons, the Shareholder Helpline or CREST Service Desk will only be able to provide you with information contained in this document (other than information relating to the Company's register of members and CREST processes respectively) and as such will be unable to give advice on the merits of the Rights Issue or to provide financial advice. Shareholder Helpline staff can explain the options available to you, which forms you need to fill in and how to fill them in correctly.

Your attention is drawn to the further terms and conditions of the Rights Issue in Part 3 of this document and (in the case of Qualifying non-CREST Shareholders) in the Provisional Allotment Letter.

PART 3: FURTHER TERMS AND CONDITIONS OF THE RIGHTS ISSUE

1. TERMS AND CONDITIONS OF THE RIGHTS ISSUE

Subject to the fulfilment of the terms and conditions referred to below, BT proposes to raise up to £5.9 billion, after expenses, through the Rights Issue. The new BT Shares are being offered by way of rights to Qualifying Shareholders on the following basis and otherwise as set out in this document:

3 new BT Shares at 300 pence per new BT Share for every 10 existing BT Shares

held at the close of business on 9 May 2001 and so in proportion for any other number of BT Shares then held.

Holdings of BT Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue.

Entitlements to new BT Shares will be rounded down and will not be allotted to Qualifying Shareholders. A number of new BT Shares equal to the aggregated fractions will be sold for the benefit of the Company. Accordingly, Qualifying Shareholders with fewer than 4 BT Shares will not be entitled to any new BT Shares.

The attention of Overseas Shareholders is drawn to paragraph 7 of this Part 3 of this document.

Application has been made to the UK Listing Authority and to the London Stock Exchange for the new BT Shares to be admitted to the Official List and to trading on the London Stock Exchange's market for listed securities. It is expected that Admission will become effective on 20 May 2001 and that dealings in the new BT Shares will commence, nil paid, by 8.00 a.m. on 21 May 2001.

The Rights Issue is conditional upon Admission becoming effective by not later than 8.00 a.m. on 21 May 2001 (or such later time and/or date as Cazenove, Merrill Lynch and the Company may agree (being not later than 3.00 p.m. on 29 May 2001)).

The new BT Shares will, when issued and fully paid, rank *pari passu* in all respects with the existing issued BT Shares, including the right to receive all dividends or other distributions made, paid or declared after the date of this document.

All documents and cheques posted to or by Qualifying Shareholders and/or their transferees or renounees (or their agents, as appropriate) will be posted at their own risk.

2. ACTION TO BE TAKEN – INTRODUCTION

The action to be taken in respect of new BT Shares depends on whether, at the relevant time, the Nil Paid Rights or Fully Paid Rights in respect of which action is to be taken, are in certificated form (that is, are represented by Provisional Allotment Letters) or are in uncertificated form (that is, are in CREST).

If you have received a Provisional Allotment Letter with this document, please refer to paragraph 3 and paragraphs 5 to 9 of this Part 3.

If you hold your BT Shares in CREST, please refer to paragraph 4 and paragraphs 5 to 9 of this Part 3 and to the CREST Manual for further information on the CREST procedures referred to below.

The existing BT Shares are already admitted to CREST. Applications have been made for the Nil Paid Rights and the Fully Paid Rights to be admitted to CREST. CRESTCo requires the Company to confirm to it that certain conditions are satisfied before CRESTCo will admit any security to CREST. It is expected that these conditions will be satisfied, in respect of the Nil Paid Rights and the Fully Paid Rights, on admission of the new BT Shares to the Official List. As soon as practicable after satisfaction of the conditions, the Company will confirm this to CRESTCo.

CREST PERSONAL MEMBERS SHOULD REFER TO THEIR CREST SPONSORS, AS ONLY THEIR CREST SPONSORS WILL BE ABLE TO TAKE THE NECESSARY ACTIONS SPECIFIED BELOW TO TAKE UP THE ENTITLEMENTS OR OTHERWISE TO DEAL WITH THE NIL PAID RIGHTS OR FULLY PAID RIGHTS OF CREST PERSONAL MEMBERS.

3. ACTION TO BE TAKEN IN RELATION TO NIL PAID RIGHTS REPRESENTED BY PROVISIONAL ALLOTMENT LETTERS

(a) General

The Provisional Allotment Letter sets out:

- (i) the holding of existing BT Shares on which a Qualifying non-CREST Shareholder's entitlement to new BT Shares has been based;
- (ii) the number of new BT Shares which have been provisionally allotted to such a Qualifying non-CREST Shareholder;
- (iii) the procedures to be followed if a Qualifying non-CREST Shareholder wishes to dispose of all or part of his entitlement or to convert all or part of his entitlement into uncertificated form; and
- (iv) instructions regarding acceptance and payment, consolidation, splitting and registration of renunciation.

(b) Procedure for acceptance and payment

(i) Qualifying non-CREST Shareholders who wish to accept in full

Holders of Provisional Allotment Letters who wish to take up all of their entitlement must return the Provisional Allotment Letter, together with a remittance, made payable to "Lloyds TSB Bank plc — BT Rights Issue" and crossed "A/C payee only", for the full amount payable on acceptance, in accordance with the instructions printed on the Provisional Allotment Letter, by hand or by post, to Lloyds TSB Registrars, Antholin House, 71 Queen Street, London EC4N 1SL, so as to arrive as soon as possible and in any event so as to be received by not later than 9.30 a.m. on 15 June 2001. A reply-paid envelope is enclosed with this document. If you post your Provisional Allotment Letter within the UK by first class post, it is recommended that you allow at least four days for delivery.

(ii) Qualifying non-CREST Shareholders who wish to accept in part

Holders of Provisional Allotment Letters who wish to take up some but not all of their rights and wish to sell some or all of those which they do not want to take up, should first apply for split Provisional Allotment Letters by completing Form X on page 4 of the PAL, and returning it to Lloyds TSB Registrars, Antholin House, 71 Queen Street, London EC4N 1SL by 3.00 p.m. on 12 June 2001, the last date and time for splitting Nil Paid Rights, together with a covering letter stating the number of split Provisional Allotment Letters required and the number of Nil Paid Rights to be comprised in each split Provisional Allotment Letter. They should then deliver the split PAL representing the shares they wish to accept together with a cheque, payable to "Lloyds TSB Bank plc – BT Rights Issue" and crossed "A/C payee only" by 9.30 a.m. on 15 June 2001, the last date and time for acceptance.

Alternatively, Qualifying non-CREST Shareholders who wish only to take up some of their rights should complete Form X on the original PAL and return it to Lloyds TSB Registrars, Antholin House, 71 Queen Street, London EC4N 1SL together with a covering letter confirming the number of new BT Shares to be taken up and a cheque to pay for this number of shares. In this case, the PAL and cheque must be received by Lloyds TSB Registrars by 3.00 p.m. on 12 June 2001, the last date and time for splitting Nil Paid Rights.

(iii) Company's discretion as to validity of acceptances

If payment is not received in full by 9.30 a.m. on 15 June 2001, the provisional allotment will be deemed to have been declined and will lapse. The Company reserves the right, but shall not be obliged, to treat as valid (i) Provisional Allotment Letters and accompanying remittances which are received through the post not later than 9.30 a.m. on 16 June 2001 (the cover bearing a legible postmark not later than 9.30 a.m. on 15 June 2001) and (ii) applications in respect of which remittances are received prior to 9.30 a.m. on 15 June 2001 from an authorised person (as defined in the Financial Services Act 1986) specifying the number of new BT Shares to be acquired and undertaking to lodge the relevant Provisional Allotment Letter duly completed in due course.

BT may also (in its sole discretion) treat a Provisional Allotment Letter as valid and binding on the person(s) by whom or on whose behalf it is lodged even if it is not completed in accordance with the relevant instructions or is not accompanied by a valid power of attorney where required.

(iv) Payments

All payments must be in pounds sterling and cheques or banker's drafts should be made payable to "Lloyds TSB Bank plc – BT Rights Issue" and crossed "A/C payee only". Cheques or banker's drafts must be drawn on a bank or building society or branch of a bank or building society in the UK or Channel Islands which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or a member of either of the Committees of the Scottish or Belfast Clearing Houses or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided by any of those companies or committees and must bear the appropriate sort code in the top right hand corner. Cheques or banker's drafts will be presented for payment upon receipt. BT reserves the right to instruct Lloyds TSB Registrars to seek special clearance of cheques and banker's drafts to allow the Company to obtain value for remittances at the earliest opportunity. No interest will be allowed on payments made before they are due. It is a term of the Rights Issue that cheques shall be honoured on first presentation and the Company may elect to treat as invalid acceptances in respect of which cheques are not so honoured.

(c) Money Laundering Regulations

If the value of your application exceeds £8,500 (or is one of a series of linked applications, the aggregate value of which exceeds that amount) and either you do not pay by a cheque drawn on an account in your own name and/or the account from which payment is to be made is not held within an institution that is authorised in the UK by the Financial Services Authority under the Banking Act 1987 or by the Building Societies Commission under the Building Societies Act 1986 or that is an EU authorised credit institution, as defined in the First Banking Directive (77/780/EEC) as defined in the verification of identity requirements of the Money Laundering Regulations 1993 (the "Money Laundering Regulations") will apply. Lloyds TSB Registrars is entitled to require, at its absolute discretion, verification of identity from any person lodging a Provisional Allotment Letter (the "applicant") including, without limitation, any person who appears to Lloyds TSB Registrars to be acting on behalf of some other person. Submission of a Provisional Allotment Letter will constitute a warranty and undertaking by the applicant to provide promptly to Lloyds TSB Registrars such information as may be specified by Lloyds TSB Registrars as being required for the purpose of the Money Laundering Regulations. Pending the provision of evidence satisfactory to Lloyds TSB Registrars as to identity, Lloyds TSB Registrars may in its absolute discretion retain a Provisional Allotment Letter lodged by an applicant for new BT Shares and/or the cheque, banker's draft or other remittance relating to it and/or not enter the new BT Shares to which it relates on the register of members or issue any share certificate in respect of them. If satisfactory evidence of identity has not been provided within a reasonable time, then the acceptance will not be valid but will be without prejudice to the right of the Company to take proceedings to recover any loss suffered by it as a result of the failure of the applicant to provide satisfactory evidence. In that case the application monies (without interest) will be returned to the bank or building society account from which payment was made.

The following guidance is provided in order to reduce the likelihood of difficulties, delays and potential rejection of an application (but does not limit the right of Lloyds TSB Registrars to require verification of identity as stated above).

- (i) Applicants are urged if possible to make their payment by their own cheque. If this is not practicable and an applicant uses a cheque drawn by a building society or other third party or a banker's draft, the applicant should:
 - (a) write the applicant's name and address on the back of the building society cheque, banker's draft or other third party cheque and, in the case of an individual, record his date of birth against his name; and
 - (b) if a building society cheque or banker's draft is used, ask the building society or bank to print on the cheque the full name and account number of the person whose building society or bank account is being debited or to write those details on the back of the cheque and add their stamp.

PART 3: FURTHER TERMS AND CONDITIONS OF THE RIGHTS ISSUE

- (ii) If an application is delivered by hand, the applicant should ensure that he has with him evidence of identity bearing his photograph, for example, a valid full passport.

If you are making an application as agent for one or more persons and you are not a UK or EU regulated person or institution (e.g. a UK financial institution), irrespective of the value of the application, Lloyds TSB Registrars is obliged to take reasonable measures to establish the identity of the person or persons on whose behalf the application is being made. Applicants making an application as agent should specify on the Provisional Allotment Letter if they are a UK or EU regulated person or institution.

All enquiries in relation to the Provisional Allotment Letters should be addressed to the Shareholder Helpline on **Freefone 0808 100 4141** (+44 20 7864 9074 if you are calling from outside the UK).

(d) Dealings in Nil Paid Rights

Dealings on the London Stock Exchange in the Nil Paid Rights are expected to commence at 8.00 a.m. on 21 May 2001. A transfer of Nil Paid Rights can be made by renunciation of the Provisional Allotment Letter in accordance with the instructions printed on it and delivery of the letter to the transferee.

(e) Dealings in Fully Paid Rights

After acceptance of the provisional allotment and payment in full in accordance with the provisions set out in this document and (in the case of Qualifying non-CREST Shareholders) the Provisional Allotment Letter, the Fully Paid Rights may be transferred by renunciation of the relevant Provisional Allotment Letter and lodging it, by hand or by post, with Lloyds TSB Registrars, Antholin House, 71 Queen Street, London EC4N 1SL, by not later than 3.00 p.m. on 29 June 2001. However, fully paid Provisional Allotment Letters will not be returned to shareholders unless their return is requested by ticking Box 4 on page 1 of the Provisional Allotment Letter.

After 29 June 2001, the new BT Shares will be in registered form and transferable in the usual way (see paragraph 3(i) of this Part 3).

(f) Renunciation and splitting of Provisional Allotment Letters

Qualifying non-CREST Shareholders who wish to transfer all the Nil Paid Rights or, after acceptance of the provisional allotment and payment in full, Fully Paid Rights comprised in a Provisional Allotment Letter may (save as required by the laws of certain overseas jurisdictions) renounce such allotment by completing and signing Form X on the letter and passing the entire letter to his stockbroker or bank or other appropriate financial adviser or to the transferee. Once a Provisional Allotment Letter has been renounced, the letter will become a negotiable instrument in bearer form. The latest time and date for registration of renunciation of Provisional Allotment Letters, fully paid, is 3.00 p.m. on 29 June 2001.

If a holder of a Provisional Allotment Letter wishes to have only some of the new BT Shares registered in his name and to transfer the remainder, or wishes to transfer all the Nil Paid Rights or (if appropriate) Fully Paid Rights but to different persons, he may have the Provisional Allotment Letter split, for which purpose he must complete and sign Form X on the Provisional Allotment Letter. The Provisional Allotment Letter must then be lodged with Lloyds TSB Registrars, Antholin House, 71 Queen Street, London EC4N 1SL by not later than 3.00 p.m. on 12 June 2001, if nil paid, or 3.00 p.m., on 27 June 2001, if fully paid, to be cancelled and exchanged for the split Provisional Allotment Letters required. The number of split letters required and the number of Nil Paid Rights or (as appropriate) Fully Paid Rights to be comprised in each split letter should be stated in an accompanying letter. Form X on split Provisional Allotment Letters will be marked "Original Duly Renounced" before issue.

(g) Registration in names of persons other than Qualifying Shareholders originally entitled

In order to register Fully Paid Rights in certificated form in the name of someone other than the Qualifying Shareholder(s) originally entitled, the renouncee or his agent(s) must complete Form Y (unless the renouncee is a CREST member who wishes to hold such shares in uncertificated form, in which case the CREST Deposit Form must be completed – see paragraph 3(h) below) on the Provisional Allotment Letter and lodge the entire letter, when fully paid, with Lloyds TSB Registrars, Antholin House, 71 Queen Street, London EC4N 1SL by not later than 3.00 p.m. on 29 June 2001.

(h) Deposit of Nil Paid Rights or Fully Paid Rights into CREST

The Nil Paid Rights or Fully Paid Rights represented by the Provisional Allotment Letter may be converted into uncertificated form, that is, deposited into CREST (whether such conversion arises as a result of a renunciation of those rights or otherwise). Subject as provided in the next following paragraph, normal CREST procedures (except for the last time for stock deposits) apply in relation to any such conversion. You are recommended to refer to the CREST Manual for details of such procedures.

The procedure for depositing the Nil Paid Rights represented by the Provisional Allotment Letter into CREST, whether such rights are to be converted into uncertificated form in the name(s) of the person(s) whose name(s) and address appear(s) on page 1 of the Provisional Allotment Letter or in the name of a person or persons to whom this letter has been renounced is as follows. Form X and the CREST Deposit Form (both on page 4 of the Provisional Allotment Letter) will need to be completed and the Provisional Allotment Letter deposited with the CCSS; in addition, the normal CREST Stock Deposit procedures will need to be carried out, except that (a) it will not be necessary to complete and lodge a separate CREST Transfer Form (prescribed under the Stock Transfer Act 1963) with the CCSS and (b) only the whole of the Nil Paid Rights or Fully Paid Rights represented by the Provisional Allotment Letter may be deposited into CREST. If you wish to deposit some only of the Nil Paid Rights or Fully Paid Rights represented by the Provisional Allotment Letter into CREST, you must first apply for split Provisional Allotment Letters. If the rights represented by more than one Provisional allotment Letter are to be deposited, the CREST Deposit Form on each letter must be completed and deposited. The Consolidation Listing Form must not be used.

A holder of the Nil Paid Rights represented by the Provisional Allotment Letter who is proposing to convert those rights into uncertificated form (whether following a renunciation of such rights or otherwise) is recommended to ensure that the conversion procedures are implemented in sufficient time to enable the person holding or acquiring the Nil Paid Rights in CREST following the conversion to take all necessary steps in connection with taking up the entitlement prior to 9.30 a.m. on 15 June 2001. In particular, having regard to processing times in CREST and on the part of Lloyds TSB Registrars, **the latest time for depositing a renounced Provisional Allotment Letter, with the CREST Deposit Form on page 4 of the Provisional Allotment Letter duly completed, with the CCSS (in order to enable the person acquiring the Nil Paid Rights in CREST as a result of the conversion to take all necessary steps in connection with taking up the entitlement prior to 9.30 a.m. on 15 June 2001) is 3.00 p.m. on 11 June 2001.**

(i) Issue of new BT Shares in definitive form

Definitive share certificates are expected to be despatched by post by 16 July 2001 to accepting shareholders at their registered address unless lodging agent details have been completed on page 4 of the PAL. After despatch, Provisional Allotment Letters will cease to be valid for any purpose whatsoever. Pending despatch of definitive share certificates, instruments of transfer may be certified by Lloyds TSB Registrars against the register.

4. ACTION TO BE TAKEN IN RELATION TO NIL PAID RIGHTS IN CREST

(a) General

Subject as provided in paragraph 7 of this Part 3, in relation to certain Overseas Shareholders, each Qualifying CREST Shareholder will receive a credit to his stock account in CREST of his entitlement to Nil Paid Rights. The CREST stock account to be credited will be an account under the participant ID and member account ID that apply to the existing BT Shares held on the Record Date by the Qualifying CREST Shareholder in respect of which the Nil Paid Rights are provisionally allotted.

The Nil Paid Rights will constitute a separate security and can accordingly be transferred, in whole or in part, by means of CREST in the same manner as any other security that is admitted to CREST.

If for any reason stock accounts of Qualifying CREST Shareholders cannot be credited by, or the Nil Paid Rights cannot be enabled on, 21 May 2001, Provisional Allotment Letters will be sent out in substitution for the Nil Paid Rights which have not been so credited or enabled and the expected timetable as set out in this document will be adjusted as appropriate.

References to dates and times in this document should be read as subject to any such adjustment. BT will make

an appropriate announcement to the Company Announcements Office of the London Stock Exchange giving details of the revised dates.

CREST members who wish to take up their entitlements in respect of, or otherwise to transfer Nil Paid Rights or Fully Paid Rights held by them in CREST should refer to the CREST Manual for further information on the CREST procedures referred to below. Should you need advice with regard to these procedures, please contact the CREST Service Desk on 0845 964 5648 (+44 20 7849 0199, if you are calling from the Republic of Ireland, or +44 845 964 5648, if you are calling from any other place outside the UK). If you are a CREST personal member you should consult your CREST sponsor if you wish to take up your entitlement as only your CREST sponsor will be able to take the necessary action to take up your entitlements or otherwise to deal with your Nil Paid Rights or Fully Paid Rights.

(b) Procedure for acceptance and payment

(i) Many-To-Many Instructions

CREST members who wish to take up all or some of their entitlement in respect of Nil Paid Rights in CREST must send (or, if they are CREST personal members, procure that their CREST sponsor sends) a Many-To-Many ("MTM") instruction to CRESTCo which, on its settlement, will have the following effect:

- (aa) the crediting of a stock account of Lloyds TSB Registrars under the participant ID and member account ID specified below, with the number of Nil Paid Rights to be taken up;
- (bb) the creation of an assured payment obligation, in accordance with the CREST assured payment arrangements, in favour of the payment bank of Lloyds TSB Registrars in respect of the full amount payable on acceptance in respect of the Nil Paid Rights referred to in sub-paragraph (aa) above; and
- (cc) the crediting of a stock account of the accepting CREST member (being an account under the same participant ID and member account ID as the account from which the Nil Paid Rights are to be debited on settlement of the MTM instruction) of the corresponding number of Fully Paid Rights to which the CREST member is entitled on taking up his Nil Paid Rights referred to in sub-paragraph (aa) above.

(ii) Contents of Many-To-Many Instructions

The MTM instruction must be properly authenticated in accordance with CRESTCo's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- the number of Nil Paid Rights to which the acceptance relates;
- the participant ID of the accepting CREST member;
- the member account ID of the accepting CREST member from which the Nil Paid Rights are to be debited;
- the participant ID of Lloyds TSB Registrars, in its capacity as a CREST receiving agent. This is 7RA01;
- the member account ID of Lloyds TSB Registrars, in its capacity as a CREST receiving agent. This is RA957501;
- the number of Fully Paid Rights that the CREST member is expecting to receive on settlement of the MTM instruction. This must be the same as the number of Nil Paid Rights to which the acceptance relates;
- the amount payable by means of the CREST assured payment obligation on settlement of the MTM instruction. This must be the full amount payable on acceptance in respect of the number of Nil Paid Rights referred to in (i) above;
- the intended settlement date. This must be on or before 15 June 2001; and
- the Corporate Action Number for the Rights Issue. This will be available by viewing the relevant corporate action details in CREST.

(iii) Valid Acceptance

An MTM instruction complying with each of the requirements as to authentication and contents set out in subparagraph (ii) of this paragraph 4(b) above will constitute a valid acceptance where either:

- (aa) the MTM instruction settles by not later than 9.30 a.m. on 15 June 2001; or
- (bb) (i) the MTM instruction is received by CRESTCo by not later than 9.30 a.m. on 15 June 2001 and (ii) a number of Nil Paid Rights at least equal to the number of Nil Paid Rights inserted in the MTM instruction is credited to the CREST stock member account of the accepting CREST member specified in the MTM instruction at 9.30 a.m. on 15 June 2001.

An MTM instruction will be treated as having been received by CRESTCo for these purposes at the time at which the instruction is processed by the Network Providers' Communications Host (as this term is defined in the CREST Manual) at CRESTCo of the network provider used by the CREST member (or by the CREST personal member's CREST sponsor). This will be conclusively determined by the input time stamp applied to the MTM instruction by the Network Providers' Communications Host.

(iv) Representations, Warranties and Undertakings of CREST Members

A CREST member or CREST personal member who makes a valid acceptance in accordance with this paragraph 4(b) of this Part 3 represents, warrants and undertakes to the Company that he has taken (or procured to be taken), and will take (or will procure to be taken), whatever action is required to be taken by him or by his CREST sponsor (as appropriate) to ensure that the MTM instruction concerned is capable of settlement at 9.30 a.m. on 15 June 2001 and remains capable of settlement at all times after that until 2.30 p.m. on 15 June 2001 (or until such later time and date as the Company may determine). In particular, the CREST member or CREST personal member represents, warrants and undertakes that, at 9.30 a.m. on 15 June 2001 and at all times thereafter until 2.30 p.m. on 15 June 2001 (or until such later time and date as the Company may determine), there will be sufficient Headroom within the Cap (as those terms are defined in the CREST Manual) in respect of the cash memorandum account to be debited with the amount payable on acceptance to permit the MTM instruction to settle. CREST personal members should contact their sponsor if they are in any doubt.

(v) CREST Procedures and Timings

CREST members and CREST sponsors (on behalf of CREST personal members) should note that CRESTCo does not make available special procedures in CREST for any particular corporate action. Normal system timings and limitations will therefore apply in relation to the input of an MTM instruction and its settlement in connection with the Rights Issue. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, to procure that his CREST sponsor takes) the action necessary to ensure that a valid acceptance is received as stated above by 9.30 a.m. on 15 June 2001. In this connection CREST members and (where applicable) CREST sponsors are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

(vi) CREST Member's Undertaking to Pay

A CREST member or CREST personal member, who makes a valid acceptance in accordance with the procedures set out in this paragraph 4(b), (aa) undertakes to pay to the Company, or procure the payment to the Company of, the amount payable on acceptance in accordance with the above procedures or in such other manner as the Company may require (it being acknowledged that, where payment is made by means of the CREST assured payment arrangements (as defined in the CREST Manual) the creation of an assured payment obligation in favour of Lloyds TSB Registrars' payment bank in accordance with the CREST assured payment arrangements shall, to the extent of the obligation so created, discharge in full the obligation of the CREST member (or CREST personal member) to pay to the Company the amount payable on acceptance) and (bb) requests that the Fully Paid Rights and/or new BT Shares to which he will become entitled be issued to him on the terms set out in this document.

(vii) Company's Discretion as to Rejection and Validity of Acceptances

The Company may agree in their absolute sole discretion to:

- (aa) reject any acceptance constituted by an MTM instruction, which is otherwise valid, in the event of breach of any of the representations, warranties and undertakings set out or referred to in this paragraph 4(b) of this Part 3. Where an acceptance is made as described in this paragraph 4(b) of this Part 3 which is otherwise valid, and the MTM instruction concerned fails to settle by 2.30 p.m. on 15 June 2001 (or by such later time and date as the Company has determined), the Company shall be entitled to assume, for the purposes of their right to reject an acceptance contained in this paragraph 4(b) of this Part 3, that there has been a breach of the representations, warranties and undertakings set out or referred to in this paragraph 4(b) of this Part 3;
- (bb) treat as valid (and binding on the CREST member or CREST personal member concerned) an acceptance which does not comply in all respects with the requirements as to validity set out or referred to in this paragraph 4(b) of this Part 3;
- (cc) accept an alternative properly authenticated dematerialised instruction from a CREST member or (where applicable) a CREST sponsor as constituting a valid acceptance in substitution for, or in addition to, an MTM instruction and subject to such further terms and conditions as the Company may determine;
- (dd) treat a properly authenticated dematerialised instruction (in this sub-paragraph the "first instruction") as not constituting a valid acceptance if, at the time at which Lloyds TSB Registrars receives a properly authenticated dematerialised instruction giving details of the first instruction, either the Company or Lloyds TSB Registrars has received actual notice from CRESTCo of any of the matters specified in Regulation 29 (5)(a) in relation to the first instruction. These matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and
- (ee) accept an alternative instruction or notification from a CREST member or (where applicable) a CREST sponsor, or extend the time for acceptance and/or settlement of an MTM instruction or any alternative instruction or notification, if, for reasons or due to circumstances outside the control of any CREST member or CREST personal member or (where applicable) CREST sponsor, the CREST member or CREST personal member is unable validly to take up all or part of his Nil Paid Rights by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or of any part of CREST) or on the part of facilities and/or systems operated by Lloyds TSB Registrars in connection with CREST.

(c) Money Laundering Regulations

If you hold your Nil Paid Rights in CREST and apply to take up all or part of your entitlement as agent for one or more persons and you are not a UK or EU regulated person or institution (e.g. a UK financial institution), then, irrespective of the value of the application, Lloyds TSB Registrars is entitled to take reasonable measures to establish the identity of the person or persons on whose behalf you are making the application. You must therefore contact Lloyds TSB Registrars before sending any MTM instruction or other instruction so that appropriate measures may be taken.

Submission of an MTM instruction which constitutes, or which may on its settlement constitute, a valid acceptance as described above constitutes a warranty and undertaking by the applicant to provide promptly to Lloyds TSB Registrars any information Lloyds TSB Registrars may specify as being required for the purposes of the Money Laundering Regulations. Pending the provision of evidence satisfactory to Lloyds TSB Registrars as to identity, Lloyds TSB Registrars may in its absolute discretion take, or omit to take, such action as it may determine to prevent or delay settlement of the MTM instruction. If satisfactory evidence of identity has not been provided within a reasonable time, then Lloyds TSB Registrars will not permit the MTM instruction concerned to proceed to settlement but without prejudice to the right of the Company to take proceedings to recover any loss suffered by it as a result of failure by the applicant to provide satisfactory evidence.

(d) Transfers of Nil Paid Rights

Dealings in the Nil Paid Rights on the London Stock Exchange are expected to commence at 8.00 a.m. on 21 May 2001. A transfer of Nil Paid Rights can be made by means of CREST in the same manner as any other security that is admitted to CREST. The Nil Paid Rights are expected to be disabled in CREST after the close of CREST business on 15 June 2001.

(e) Transfers of Fully Paid Rights

After acceptance of the provisional allotment and payment in full in accordance with the provisions set out in this document and (where appropriate) the Provisional Allotment Letter, the Fully Paid Rights may be transferred by means of CREST in the same manner as any other security that is admitted to CREST. The last date for settlement of any transfer of Fully Paid Rights in CREST is expected to be on 29 June 2001. The Fully Paid Rights are expected to be disabled in CREST after the close of CREST business on 29 June 2001.

After 29 June 2001, the new BT Shares will be registered in the name(s) of the person(s) entitled to them in the Company's register of members and will be transferable in the usual way (see paragraph 4(g) of this Part 3).

(f) Withdrawal of Nil Paid Rights or Fully Paid Rights from CREST

Nil Paid Rights or Fully Paid Rights held in CREST may be converted into certificated form, that is, withdrawn from CREST. Normal CREST procedures (including timings) apply in relation to any such conversion.

The recommended latest time for receipt by CRESTCo of a properly authenticated dematerialised instruction requesting withdrawal of Nil Paid Rights from CREST is 4.30 p.m. on 7 June 2001, so as to enable the person acquiring or (as appropriate) holding the Nil Paid Rights following the conversion to take all necessary steps in connection with taking up the entitlement prior to 9.30 a.m. on 15 June 2001.

(g) Issue of new BT Shares in CREST

Fully Paid Rights in CREST are expected to be disabled in CREST after the close of CREST business on 29 June 2001 (the latest date for settlement of transfers of Fully Paid Rights in CREST). New BT Shares (in definitive form) will be issued in uncertificated form to those persons registered as holding Fully Paid Rights in CREST at the close of business on that date. Lloyds TSB Registrars will instruct CRESTCo to credit the appropriate stock accounts of those persons (under the same participant ID and member account ID that applied to the Fully Paid Rights held by those persons) with their entitlements to new BT Shares with effect from the next business day (expected to be 2 July 2001).

(h) Right to allot/issue in certificated form

Despite any other provision of this document, BT reserves the right to allot and/or issue any Nil Paid Rights, Fully Paid Rights or new BT Shares in certificated form. In normal circumstances, this right is only likely to be exercised in the event of an interruption, failure or breakdown of CREST (or of any part of CREST) or on the part of the facilities and/or systems operated by Lloyds TSB Registrars in connection with CREST.

5. PROCEDURE IN RESPECT OF RIGHTS NOT TAKEN UP (WHETHER CERTIFICATED OR IN CREST)

If an entitlement to new BT Shares is not validly taken up by 9.30 a.m. on 15 June 2001, in accordance with the procedure laid down for acceptance and payment, then that provisional allotment will be deemed to have been declined and will lapse. Cazenove and Merrill Lynch will use reasonable endeavours to procure, by not later than 3.00 p.m. on 21 June 2001, subscribers for those new BT Shares at a price at least equal to the Issue Price. It is currently expected that this will be carried out by way of an international tender. Only the premium over the aggregate of the Issue Price and the expenses of procuring subscribers (including any irrecoverable value added tax) shall be paid (subject as provided in this paragraph 5):

- (i) where the provisional allotment was, at the time it lapsed, represented by a Provisional Allotment Letter, to the person whose name and address appeared on page 1 of the Provisional Allotment Letter; and
- (ii) where the Nil Paid Rights were, at the time they lapsed, in uncertificated form, to the person registered as the holder of those Nil Paid Rights at the time of their disablement in CREST.

New BT Shares for which subscribers are procured on this basis will be re-allotted to the subscribers and the aggregate premium (being the amount paid by the subscribers after deducting the Issue Price and the expenses of procuring the subscribers including any irrecoverable value added tax) will be paid (without interest) to those persons entitled (as referred to above) *pro rata* to the relevant lapsed provisional allotments, save that amounts of less than £3.00 per holding will not be so paid but will be aggregated and retained for the benefit of BT.

Any transactions undertaken pursuant to this paragraph 5 shall be deemed to have been undertaken at the request of the Company and none of Cazenove, Merrill Lynch or any other person procuring the subscribers shall be responsible for any loss arising from the terms or timing of the subscription or the failure to procure subscribers on the basis described above. Cheques for the amount due will be sent, at the risk of the person(s) entitled, to their registered addresses (the registered address of the first named in the case of joint holders), provided that, where any entitlement concerned was held in CREST, the amount due will, unless the Company (in its absolute discretion) otherwise determines, be satisfied by the Company procuring the creation of an assured payment obligation in favour of the relevant CREST member's (or CREST personal member's) payment bank in respect of the cash amount concerned in accordance with the CREST assured payment arrangements.

6. TAXATION

Information on UK taxation with regard to the Rights Issue is set out in paragraph 9 of Part 7 of this document. To satisfy regulatory requirements, information on taxation in the Republic of Ireland, Germany and The Netherlands is set out in paragraphs 10 to 12 of Part 7. **Shareholders who are in any doubt as to their tax position or who are subject to tax in any other jurisdiction should consult their independent professional adviser immediately.**

7. OVERSEAS SHAREHOLDERS

(a) General

THE OFFER OF NEW BT SHARES TO PERSONS RESIDENT IN, OR WHO ARE CITIZENS OF, COUNTRIES OTHER THAN THE UK MAY BE AFFECTED BY THE LAW OF THE RELEVANT JURISDICTION. THOSE PERSONS SHOULD CONSULT THEIR PROFESSIONAL ADVISERS AS TO WHETHER THEY REQUIRE ANY GOVERNMENTAL OR OTHER CONSENTS OR NEED TO OBSERVE ANY OTHER FORMALITIES TO ENABLE THEM TO TAKE UP THEIR RIGHTS.

Receipt of this document and/or a Provisional Allotment Letter or the crediting of Nil Paid Rights to a stock account in CREST will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this document and/or a Provisional Allotment Letter will be sent for information only and should not be copied or redistributed. No person receiving a copy of this document and/or a Provisional Allotment Letter and/or receiving a credit of Nil Paid Rights to a stock account in CREST in any territory other than the UK may treat the same as constituting an invitation or offer to him, nor should he in any event use the Provisional Allotment Letter or deal with Nil Paid Rights in CREST unless, in the relevant territory, such an invitation or offer could lawfully be made to him or the Provisional Allotment Letter or Nil Paid Rights in CREST could lawfully be used or dealt with without contravention of any unfulfilled registration or other legal requirements.

Accordingly, persons receiving a copy of this document and/or a Provisional Allotment Letter should not, in connection with the Rights Issue, distribute or send the same, or transfer Nil Paid Rights or Fully Paid Rights to any person in or into any jurisdiction where to do so would or might contravene local securities laws or regulations. If a Provisional Allotment Letter is received by any person in any such territory, or by their agent or nominee, he must not seek to take up the rights referred to in the letter or renounce the Provisional Allotment Letter except under an express written agreement between him and the Company. Any person who does forward this document or a Provisional Allotment Letter into any such territories (whether under a contractual or legal obligation or otherwise) should draw the recipient's attention to the contents of this paragraph 7.

Subject to paragraph 7(c) below, any person (including, without limitation, nominees and trustees) outside the UK wishing to take up his rights under the Rights Issue must satisfy himself as to full observance of the applicable laws of any relevant territory including obtaining any requisite governmental or other consents, observing any other requisite

formalities and paying any issue, transfer or other taxes due in such territories. **The comments set out in this paragraph 7 are intended as a general guide only and any Qualifying Shareholder who is in doubt as to his position should consult his professional adviser without delay.**

The Company reserves the right to treat as invalid any acceptance or purported acceptance of the offer of new BT Shares which appears to the Company or its agents to have been executed, effected or despatched in a manner which may involve a breach of the legislation of any jurisdiction or if it believes or its agents believe that the same may violate applicable legal or regulatory requirements or if, in the case of a Provisional Allotment Letter, it provides an address for delivery of share certificates for new BT Shares in Australia, Belgium, Canada, France, Japan or South Africa or any other jurisdiction outside the UK in which it would be unlawful to deliver such share certificates. The attention of Qualifying Shareholders with registered addresses in Australia, Belgium, Canada, France, Japan, South Africa or the US is drawn to paragraphs (b) and (c) below.

Despite any other provision of this document or the Provisional Allotment Letter, the Company reserves the right to permit any Qualifying Shareholder to take up his rights if the Company in its sole and absolute discretion is satisfied that the transaction in question is exempt from or not subject to the legislation or regulations giving rise to the restrictions in question.

Those shareholders who wish, and are permitted, to take up their entitlement should note that payments must be made as described in paragraphs 3 of this Part 3 (Qualifying non-CREST Shareholders) and 4 of this Part 3 (Qualifying CREST Shareholders) above.

The provisions of paragraph 5 of this Part 3 will apply generally to Overseas Shareholders who are unable to take up new BT Shares provisionally allotted to them.

(b) United States of America

BT's shares are listed on the New York Stock Exchange in the form of ADSs. Application has been made to the New York Stock Exchange to list the new BT ADSs. It is expected that the existing BT ADSs will trade ex-rights on the New York Stock Exchange from 21 May 2001, and accordingly trading on the New York Stock Exchange in the rights to subscribe for the new BT ADSs is expected to commence on that date.

This document does not constitute an offer of any securities for sale in the United States. The Rights Issue is being made in the US by means of the US Prospectus which is part of an effective registration statement filed with the SEC. US Holders and holders of BT ADSs are advised to read the US Prospectus as it contains important information relating to the Rights Issue. These shareholders can inspect and obtain a copy of the US Prospectus relating to the Rights Issue, at the public reference facilities maintained by the SEC at 450 Fifth Street N.W., Room 1024, Washington D.C. 20549. In addition, copies of the US Prospectus are available from the US information agent, Georgeson Shareholder Communications Inc., on 1 888 382 8303 or from Morgan Guaranty Trust Company of New York, JP Morgan Service Centre, P.O. Box 842006, Boston MA 02284-2006 or from the Company's registered office.

(c) Australia, Belgium, Canada, France, Japan and South Africa

Due to restrictions under the securities laws of Australia, Belgium, Canada, France, Japan and South Africa, no Provisional Allotment Letter in relation to the new BT Shares will be sent to, and no Nil Paid Rights will be credited to a stock account in CREST of, Qualifying Shareholders with registered addresses in, and the new BT Shares may not be transferred or sold to or renounced or delivered in, any of those countries. Accordingly, no offer of new BT Shares is being made under this document to BT Shareholders with registered addresses in, or to residents of any of, Australia, Belgium, Canada, France, Japan or South Africa. This document is being sent to these shareholders for information only.

In accordance with section 90(5) of the Companies Act, the Rights Issue is being made to Qualifying Shareholders who have no registered address within the United Kingdom and who have not supplied an address to the Company within the United Kingdom for the service of notices, by the Company publishing a notice in the London Gazette by 14 May 2001, stating where copies of this document and the Provisional Allotment Letter may be inspected or obtained. Such Qualifying Shareholders may be able to participate in the Rights Issue if they satisfy themselves that, and in the case of those Qualifying Shareholders with registered addresses in, or residents of any of, Australia, Belgium, Canada, France, Japan or

PART 3: FURTHER TERMS AND CONDITIONS OF THE RIGHTS ISSUE

South Africa, they are able to prove to the Company or its agents that, the receipt, or acceptance, of the offer in such jurisdiction will not breach local securities laws. If a Qualifying Shareholder with a registered address in, or resident in any of, Australia, Belgium, Canada, France, Japan or South Africa can prove this to the satisfaction of the Company, then the Company at its absolute discretion may arrange for him to be sent a Provisional Allotment Letter whether he is a Qualifying non-CREST Shareholder or Qualifying CREST Shareholder.

The provisions set out in paragraph 5 of this Part 3 will apply to the rights of Qualifying Shareholders with registered addresses in Australia, Belgium, Canada, France, Japan or South Africa. None of the Company, Cazenove, Merrill Lynch or any other person shall be responsible or have any liability whatsoever for any loss or damage (actual or alleged) arising from the terms or timing of the subscription or the procuring of it or any failure to procure subscribers.

(d) Overseas territories other than Australia, Belgium, Canada, France, Japan or South Africa

Provisional Allotment Letters will be posted to Qualifying non-CREST Shareholders other than those Qualifying non-CREST Shareholders who have registered addresses in Australia, Belgium, Canada, France, Japan or South Africa and Nil Paid Rights will be credited to the CREST accounts of Qualifying CREST Shareholders other than those Qualifying CREST Shareholders who have registered addresses in Australia, Belgium, Canada, France, Japan or South Africa. Such Qualifying Shareholders may, subject to the laws of their relevant jurisdiction, accept the Rights Issue in accordance with the instructions set out in this document. In cases where Overseas Shareholders cannot, or do not, take up Nil Paid Rights provisionally allotted to them, the provisions of paragraph 5 of this Part 3 will apply.

Persons resident in, or who are citizens of, countries other than the UK should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their rights.

(e) The Republic of Ireland, Germany and The Netherlands

Qualifying Shareholders resident in the Republic of Ireland, Germany and The Netherlands should refer to paragraphs 10 to 12 of Part 7 of this document in relation to the tax implications of the Rights Issue in their respective jurisdictions.

If you are in any doubt as to your eligibility to accept the offer of new BT Shares, you should contact your professional adviser immediately.

8. TIMES AND DATES

The Company shall in its discretion and after consultation with its financial and legal advisers be entitled to amend or extend the latest date for acceptance under the Rights Issue and all related dates set out in this document and in such circumstances shall notify the UK Listing Authority and the Company Announcements Office of the London Stock Exchange and, if appropriate, Qualifying Shareholders.

9. GOVERNING LAW

The terms and conditions of the Rights Issue as set out in this document and the Provisional Allotment Letter shall be governed by, and construed in accordance with, the laws of England.

PART 4: PRELIMINARY RESULTS OF BT FOR THE YEAR ENDED 31 MARCH 2001

The full text of the preliminary results of BT for the year ended 31 March 2001 announced on 10 May 2001 is set out below:

“Summary Points from Chairman’s Statement on Preliminary Results

The Transformation of BT

- Satisfactory operating performance from our UK business – group EBITDA maintained
- Good progress made in debt reduction, with £5.5 billion of disposals already agreed
- £5.9 billion rights issue announced
- Non-cash charge of £3 billion taken against goodwill on Viag Interkom
- Dividend payments halted for the time being
- Decision to create two strong and separately quoted businesses, BT Wireless and Future BT

Sir Christopher Bland concluded, “It will require determined and rapid action by management to achieve the transformation of BT; we have made a good start, the culture is changing, and I am confident that we can complete the process in the best interests of our shareholders, customers and staff”.

BT’s results for the fourth quarter and year ended March 31, 2001 are summarised in the following table below.

	<i>Fourth Quarter</i>		<i>Year</i>	
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Group turnover	5,422	4,743	20,427	18,715
EBITDA	1,630	1,582	6,492	6,439
Net interest charge	(422)	(140)	(1,314)	(382)
Profit before goodwill amortisation, exceptional items and taxation	319	742	2,072	3,100
Goodwill impairment charge	(3,000)	—	(3,200)	—
Profit on sale of group undertakings and fixed asset investments	54	36	619	126
Profit (loss) before taxation	(2,823)	629	(1,031)	2,942
Profit (loss) after taxation	(2,919)	437	(1,683)	2,045
Earnings (loss) per share	(44.9)p	6.8p	(27.7)p	31.7p
Earnings per share before exceptional items and goodwill amortisation	3.0p	8.4p	20.5p	34.2p

Chairman’s statement

Sir Christopher Bland, BT’s Chairman appointed on May 1, 2001, said:

The Transformation of BT

“BT’s operating performance in the year has been satisfactory and in line with market expectations; group turnover rose by 9 per cent., and EBITDA has been maintained at similar levels to last year. However, we have taken a non-cash charge of £3 billion against the goodwill on our German subsidiary, Viag Interkom, in the light of changed expectations for that business.

Net debt has risen to £27.9 billion at March 31, 2001 following the acquisitions made during the year. Our first priority is to repay a significant amount of this debt. We have made a good start with the agreed sales of investments in Japan,

Spain, Switzerland and Malaysia, which should raise over £5 billion. Further disposals, including the sale or demerger of Yell and the sale of group properties, are planned.

We have also announced today that we intend to raise £5.9 billion through a rights issue; details are being sent to all shareholders separately. And we have taken the unwelcome but necessary step of halting dividend payments for the time being.

As part of our plans for the future we intend to demerge BT Wireless. As a result, and provided the necessary permissions are received, shareholders will own shares in two strong and separately quoted businesses: BT Wireless and Future BT. We expect both to be substantial FTSE 100 companies.

Taken together, these measures will greatly strengthen the financial position of BT and enable the restructuring programme to be delivered in the way most likely to preserve shareholder value. It will require determined and rapid action by management to achieve the transformation of BT; we have made a good start, the culture is changing, and I am confident that we can complete the process in the best interests of our shareholders, customers and staff."

Financial headlines

Fourth quarter

- EBITDA rose by 3.0 per cent. to £1,630 million
- Group turnover increased by 14.3 per cent. to £5,422 million
- Disappointing Concert global venture results — loss of £89 million
- Capital expenditure on property, plant and equipment rose by 53 per cent. to £1,780 million
- Successful Euro 9.7 billion Eurobond issued
- Goodwill impairment charge of £3.0 billion relating to Viag Interkom in light of reduced expectations
- Balance sheet gearing at 192 per cent. with net debt at £27.9 billion at end of March 2001

Full year

- EBITDA rose by 0.8 per cent. to £6,492 million
- Group turnover rose by 9.1 per cent. to £20,427 million
- Disposal programme contributes £619 million to profit before tax
- Capital expenditure on property, plant and equipment rose by 35 per cent. to £4,986 million
- Successful US \$10 billion and Euro 9.7 billion bonds issued
- Goodwill impairment charge of £3.2 billion
- Dividend payments halted

Business highlights

- Radical restructuring announced on November 9, 2000 and work continues on implementation
- ADSL roll out extends to 839 exchanges at March 31, 2001
- Agreement with Crown Castle to develop cellsites jointly
- New BT Together packages launched, 8 million customers now benefiting
- BT Cellnet's customer base up 3.8 million in the year to 11.2 million at March 31, 2001
- Full control taken of Viag Interkom. Its mobile customer base rises to 3.7 million at March 31, 2001 up 8 times in 12 months
- BT Ignite's integrated broadband enabled IP network covers more than 52,000 km in 12 countries

- Genie achieves around 4 million registered users world-wide

Restructuring

In April 2000, we announced a restructuring whereby the group and its ventures would be managed through four international businesses alongside BT's two UK operations and the Concert global venture. The four international businesses, BT Wireless, BT Ignite, BTopenworld and Yell began operations on July 1, 2000, as planned.

On November 9, 2000, we announced an intention to sell public minority stakes in some of BT's international businesses and to dispose of non-core holdings. We also stated that we expected to reduce our net borrowings from a peak of approximately £30 billion by around £10 billion by December 31, 2001. Certain of the restructuring steps have been changed to reflect developments in the capital markets. In particular, we intend to demerge BT Wireless towards the end of 2001 and to sell or demerge Yell.

In implementing the new structure, the shape of the international businesses has been modified. BT Wireless now comprises the group's controlled mobile activities in the UK, Germany, The Netherlands and Ireland, and the Genie mobile internet business. The group's minority interests in wireless companies are held centrally pending a decision about their future within the BT group. The financial information on BT Wireless and the other international businesses published in this release for the fourth quarter and year ended March 31, 2001 reflects this structural modification. We are also including in this release separate financial information for the main UK retail and wholesale businesses for the first time.

On May 2, 2001, we announced that we had agreed to sell our interests in Japan Telecom and J-Phones for £3.7 billion, and our interest in Airtel in Spain for £1.1 billion, both to Vodafone. The impact of the combined transaction will be a net reduction in total BT group debt of £4.4 billion. Completion of the transactions is conditional upon relevant regulatory and procedural approvals in Europe and Japan.

We also announced on May 4, 2001 that we had agreed in principle to sell our interest in Maxis Communications in Malaysia for £350 million. This transaction is also subject to regulatory and other approvals.

In the detailed analysis which follows, we deal first with the results at group level before highlighting the performance of our new lines of business.

GROUP RESULTS

Fourth quarter

BT's loss per share for the fourth quarter ended March 31 2001 was 44.9 pence based on a loss before taxation of £2,823 million. This loss included the following exceptional items:

- Goodwill impairment charge of £3,000 million relating to Viag Interkom
- Write off of systems and software amounting to £43 million following BT's acquisition of Viag Interkom
- Profit of £54 million from the disposal of fixed asset investments and group undertakings

Earnings before these items and goodwill amortisation were 3.0 pence per share compared with 8.4 pence per share in the corresponding quarter of the last financial year. The lower earnings in the current period were mainly due to higher interest charges following BT's acquisition of businesses and third generation licences over the past year and losses incurred by the Concert global venture. Total operating profit before goodwill amortisation and exceptional items declined by 16.0 per cent. to £741 million on a total turnover increase of 29 per cent. to £7,747 million. Of the total turnover increase, approximately 60 per cent. was due to acquisitions, net of disposals.

Turnover

Group turnover increased by 14.3 per cent. in the fourth quarter to £5,422 million. The principal areas of growth were through the acquisition of interests in Europe and from interconnect with UK operators.

Fixed network call turnover in the UK declined by 4.0 per cent. (£57 million) to £1,383 million in the quarter. Significant factors in this change were:

- price reductions, which reduced turnover by approximately £60 million;

PART 4: PRELIMINARY RESULTS OF BT FOR THE YEAR ENDED 31 MARCH 2001

- call volume growth on a 12 months moving average basis was 2 per cent. to March 31, 2001, compared with 7 per cent. a year earlier. Strong fixed to mobile and internet-related non-geographic call growth was offset by declining higher margin local, national and international geographic call volumes.

The trend in fixed network call volumes is illustrated in the table below:

Fixed network calls volume growth

	<i>12 months moving average volume growth (decline)</i>							
	<i>Mar 01</i>	<i>Dec 00</i>	<i>Sep 00</i>	<i>Jun 00</i>	<i>Mar 00</i>	<i>Dec 99</i>	<i>Sep 99</i>	<i>Jun 99</i>
	%	%	%	%	%	%	%	%
Non-geographic calls:								
Internet related and other	38	57	69	87	95	112	126	119
Fixed to mobile	30	36	42	46	48	49	47	42
Geographic calls:								
Local	(12)	(12)	(11)	(10)	(9)	(8)	(6)	(5)
National	(7)	(8)	(7)	(6)	(4)	(3)	(1)	(1)
International	(3)	(5)	(6)	(5)	(3)	(2)	0	0
Overall	2	4	5	6	7	8	9	8

Turnover from UK exchange line rental and connection charges grew by 8.0 per cent. in the fourth quarter to £970 million, reflecting both price increases and the growth in BT's network. Business lines have grown by 5.4 per cent. over the 12 months to March 31, 2001. Residential lines have declined by 0.3 per cent. over the year due to some mobile phone substitution and competition from other fixed line providers, offset in part by customers taking up second lines.

Receipts from other operators for interconnect increased by 41 per cent. in the fourth quarter to £805 million, primarily from growth in transit traffic handled by BT for other UK operators.

Wireless turnover rose by 35 per cent. in the fourth quarter to £752 million. The acquisitions of Esat Digifone, Telfort and Viag Interkom contributed £191 million of the growth of £195 million in the quarter.

Total turnover, including BT's proportionate share of its ventures, grew by 29 per cent. in the fourth quarter to £7,747 million. The increase in BT's proportional share of its ventures' turnover from £1,435 million to £2,512 million is principally due to its investments in Japan.

Operating costs and results

Total operating costs, excluding exceptional items, rose by 22 per cent. in the fourth quarter. Underlying operating costs, excluding goodwill amortisation and the effects of acquisitions and disposals, rose by about 10 per cent. The principal reasons for the underlying increase in the fourth quarter were:

- higher payments to other operators for interconnect (payments to operators increased by 16.8 per cent. to £994 million); and
- higher depreciation costs of £164 million reflecting the increase in BT's asset base and the shortening of asset lives.

The group operating results for the fourth quarter are after charging the exceptional goodwill impairment of £3,000 million relating to Viag Interkom. In addition, ongoing goodwill amortisation of £115 million has been charged, principally on the Cellnet minority acquisition in November 1999, the Esat group acquisition in March 2000 and the Viag Interkom acquisition in February 2001. Before goodwill amortisation and exceptional items, group operating profit of £775 million was 15.9 per cent. lower than in the corresponding period of the previous year. This reduction in profit was mainly attributable to the losses incurred by BT's newly acquired subsidiaries, Viag Interkom, Telfort and Esat Telecom.

Share of results of ventures

BT's share of its ventures' operating results before goodwill amortisation improved to a loss of £34 million in the fourth quarter from a loss of £40 million in the corresponding period of last year. This improvement is largely due to the acquisition of interests in Japan Telecom and the J-Phone mobile companies, offset by a deterioration in Concert's performance, as shown in the table below.

BT's share of operating profit (loss) before goodwill amortisation and exceptional items

	<i>Fourth quarter ended March 31,</i>	
	<i>2001</i>	<i>2000</i>
	<i>£m</i>	<i>£m</i>
Japanese investments and other	48	(59)
Concert global venture	(89)	69
Cegetel	44	(1)
Viag Interkom (<i>to February 19 2001</i>)	(54)	(54)
Airtel	17	5
Total	(34)	(40)

Goodwill amortisation attributable to the ventures rose from £28 million to £38 million before exceptional items in the fourth quarter.

Interest

Net interest, including BT's share of its ventures' interest charge, rose by £282 million to £422 million in the fourth quarter. Of the total charge, £352 million arose in the BT group and £70 million relates to ventures. The increase in the group's interest charge of £243 million is a consequence of the debt incurred by the group to finance its recent acquisitions and the third generation mobile licences. Before goodwill amortisation, the net interest charge was covered 1.7 times by total operating profit.

Taxation

The tax charge of £96 million represents an effective rate of 28.5 per cent. of profit before tax and goodwill amortisation for the fourth quarter.

Full year

The loss per share for the year ended March 31, 2001 was 27.7 pence based on a loss before taxation of £1,031 million. This loss included the following exceptional items:

- write down of impaired goodwill in subsidiaries and ventures of £3,200 million;
- write off of subscriber acquisition costs of £139 million on aligning the accounting of non-UK wireless operations;
- write off of equipment assets amounting to £43 million following BT's acquisition of Viag Interkom;
- profit of £619 million from the disposal of fixed asset investments and group undertakings; and
- rates rebate of £193 million on BT's infrastructure and associated interest credit of £25 million.

Earnings before these items and goodwill amortisation were 20.5 pence per share compared with 34.2 pence per share in the previous financial year. The lower earnings in the current year were mainly due to higher interest charges following BT's acquisition of businesses and third generation licences over the past eighteen months. Total operating profit before goodwill amortisation and exceptional items declined by 2.0 per cent. to £3,411 million on a total turnover increase of 35 per cent. to £29,666 million. Of the total turnover increase, approximately 70 per cent. was due to net acquisitions.

Turnover

Group turnover increased by 9.1 per cent. in the year ended March 31, 2001 to £20,427 million. The principal areas of growth were through the acquisition of interests in Europe and from interconnect with UK operators. The transfer of certain BT businesses to the Concert global venture in January 2000 has had the effect of reducing group turnover for the year by approximately £610 million (3 per cent.). Group turnover continues to originate predominately in the UK with 91 per cent. originating in the country compared to 95 per cent. in the previous year.

Fixed network call turnover in the UK declined by 4.3 per cent. (£253 million) to £5,655 million in the year. Price reductions had the effect of reducing turnover by approximately £280 million. Other significant factors in this change were similar to those which affected the fourth quarter.

Turnover from UK exchange line rental and connection charges grew by 4.2 per cent. in the year to £3,674 million as a consequence of increased numbers of business lines and price increases.

Receipts from other operators for interconnect increased by 43 per cent. in the year to £2,814 million, primarily from growth in transit traffic handled by BT for other UK operators.

Wireless turnover rose by 27 per cent. in the year to £2,760 million. The acquisitions of controlling interests in Esat Digifone in March 2000, Telfort in June 2000 and Viag Interkom in February 2001 contributed £467 million of the growth of £590 million in the year.

Total turnover, including BT's proportionate share of its ventures, grew by 35 per cent. in the year to £29,666 million. The increase in BT's proportional share of its ventures' turnover from £3,364 million to £9,937 million is principally due to its investments in Japan and in the Concert global venture with AT&T which was launched in January 2000.

Operating costs and results

Total operating costs, excluding exceptional items, rose by 17.4 per cent. in the year. Underlying operating costs, excluding goodwill amortisation and the effects of acquisitions and disposals, rose by about 10 per cent.. The principal reasons for the underlying increase in the year were:

- Higher payments to other operators for interconnect (payments to operators increased by 23 per cent. to £3,802 million); and
- Higher depreciation costs of £293 million reflecting the increase in BT's asset base and shorter asset lives.

Over 5,800 employees left BT in the year under early release. Redundancy direct costs for the year were £45 million higher at £104 million.

We are changing the arrangements under which people leave BT in advance of the normal retirement age. Under our NewStart programme launched during the fourth quarter, BT employees will be expected to leave with a leaving payment in place of a redundancy payment, and incremental pension benefits are to be scaled down. This should reduce early leaver costs, which have been very significant in recent years. Payments totalling £14 million were made under the NewStart programme in the fourth quarter of the year.

The group operating results for the year are after charging the exceptional goodwill impairment of £3,000 million and £373 million for goodwill amortisation, principally related to the Cellnet minority acquisition in November 1999. Before goodwill amortisation and exceptional items, group operating profit of £3,291 million was 13.3 per cent. lower than in the previous year. This reduction in profit was mainly attributable to the losses incurred by BT's newly acquired subsidiaries, Telfort and Esat Telecom and the transfer of business to the Concert global venture in January 2000.

Share of results of ventures

BT's share of its ventures' operating results before goodwill amortisation and exceptional items improved to a profit of £120 million in the year from a loss of £316 million in the previous year. This improvement is largely due to the acquisition of interests in Japan Telecom and the J-Phone mobile companies as shown in the table below.

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BT's share of operating profit (loss) before goodwill amortisation and exceptional items

	Year ended March 31,	
	2001 £m	2000 £m
Japanese investments and other	231	(206)
Concert global venture (<i>three months in 2000</i>)	19	69
Cegetel	90	30
Viag Interkom (<i>to February 19 2001</i>)	(277)	(240)
Airtel	57	31
Total	120	(316)

Goodwill amortisation attributable to the ventures rose from £84 million to £185 million before exceptional items in the year.

Profit on sale of fixed asset investments and group undertakings

We sold our 34 per cent. interest in sunrise communications, our telecommunications joint venture in Switzerland, to another partner for £464 million in the third quarter. The profit of £454 million on this sale is the main item in the total profit of £619 million for the year.

Interest

Net interest, including BT's share of its ventures' interest charge, rose by £932 million to £1,314 million in the year. Of the total charge, £1,044 million arose in the BT group and £270 million relates to ventures. Net interest includes a one-off benefit of £25 million interest receivable on the infrastructure rates refund. The increase in the group's interest charge of £738 million is a consequence of the debt incurred by the group to finance its recent acquisitions and the third generation mobile licences. Before goodwill amortisation, the net interest charge was covered 2.6 times by total operating profit.

Exceptional items

The results for the year include several exceptional items. These are summarised in the following table and compared with the exceptional items in the previous year.

Exceptional items

	Year ended March 31,	
	2001 £m	2000 £m
Impairment of goodwill in Viag Interkom	(3,000)	—
Impairment of goodwill in ventures	(200)	—
Write off of cellular subscriber acquisition costs	(139)	—
Write off of Viag Interkom's IT systems	(43)	—
Infrastructure rates refunds	193	—
Costs relating to the disengagement from MCI	—	(64)
Costs relating to the closure of the BT Cellnet analogue network	—	(47)
Adverse impact on total operating profit	(3,189)	(111)
Profit on sale of group undertakings	619	126
Interest receivable on rates refunds	25	—
Beneficial (adverse) impact on profit before tax	(2,545)	15

PART 4: PRELIMINARY RESULTS OF BT FOR THE YEAR ENDED 31 MARCH 2001

The most significant item is the impairment of goodwill in Viag Interkom. We completed the acquisition of the 55 per cent. interest in the company for £5,605 million in January and February 2001. Goodwill of £4,992 million arose on this transaction, the consideration for which was negotiated in August 2000. We have undertaken an impairment review under the requirements of the UK Accounting Standard FRS11, incorporating reduced expectations for the rate of growth in profits in the medium term. An impairment in goodwill of £3,000 million resulted from this review, which we have charged as an exceptional item in the fourth quarter and year ended March 31, 2001.

Other exceptional items in the year comprised:

- a write off of £43 million on Viag Interkom's IT systems following its division into fixed and wireless businesses on BT's acquisition;
- write off of £139 million relating to deferred subscriber acquisition costs. We have aligned the accounting of all the wireless operating units; this has resulted in a write off of previously capitalised costs in certain non UK operations;
- goodwill impairment of £200 million arising in Asian ventures; and
- credit of £193 million for the refund of rates on BT's UK infrastructure following a successful legal action taken by BT in 2000 to challenge the rateable valuations on which it was charged for its network assets.

Taxation and minority interests

The tax charge of £652 million represents an effective rate of 28.5 per cent. of profit before tax, goodwill amortisation and the profit on disposal of certain fixed asset investments, for the year.

The minority interests in the results of the year of £127 million are primarily attributable to outside interests in the Japanese investments.

Dividends

An interim dividend of 8.7 pence per share was paid in February 2001. As part of BT's debt reduction and restructuring plans, the Board is not recommending the payment of a final dividend to shareholders for the year ended March 31, 2001.

Cash flow and net debt

Cash inflow from operating activities amounted to £5,887 million in the year ended March 31, 2001, a similar level to the previous year.

The group's significant cash flows in the fourth quarter and year are summarised in the following table.

Cash flows

	<i>Fourth quarter ended March 31, 2001 £m</i>	<i>Year ended March 31, 2001 £m</i>
Net cash outflow from capital expenditure on property, plant and equipment, and interest, tax and dividend payments, less cash inflow from operating activities	345	1,687
Acquisitions of businesses and funding of ventures (including Viag Interkom's 3G licence)	8,889	14,501
Mobile licences and other intangible assets acquired	12	4,208
Disposals of businesses	(157)	(747)
Fixed asset disposals	(408)	(522)
Net cash outflow before financing	<u>8,681</u>	<u>19,127</u>

The cash outflow on acquisitions of £14,501 million in the year consisted mainly of the acquisitions of Viag Interkom, including its third generation licence, Esat and Telfort. The mobile licences acquired relates primarily to the UK third

generation licence. In April 2001, we acquired the 49.5 per cent. minority interest in Esat Digifone that we did not already own for £856 million.

During the year ended March 31, 2001 we raised significant long-term finance. In December 2000, we issued a US\$10 billion global bond with maturities between 2003 and 2030, and in February 2001 we issued a Euro 9.7 billion bond with maturities between 2003 and 2016. We have financed the majority of our other requirements during the year by drawing on commercial paper and medium-term note programmes under which approximately £10.7 billion was outstanding at March 31, 2001, an increase of £5.8 billion since March 31, 2000. The group had unused committed short-term bank facilities amounting to approximately £16.8 billion at March 31, 2001, in support of a commercial paper programme or other borrowings.

BT's fixed rate debt at March 31, 2001 carries interest at an average rate of 7 per cent.. Both the global and Eurobond bonds noted above have terms under which BT has to pay higher interest rates should our credit ratings be lowered.

Gearing (net debt as a percentage of shareholders' funds and minority interests) at March 31, 2001 stood at 192 per cent. with net debt of £27.9 billion compared with £8.7 billion at March 31, 2000.

Capital expenditure

Capital expenditure on plant, equipment and property in the fourth quarter of £1,780 million brought the total to £4,986 million for the year compared with £3,680 million in the previous year. The expenditure in the year includes £482 million spent by our newly acquired subsidiaries in Germany, The Netherlands and Ireland. Work continues on enhancing the UK fixed network to enable customers to benefit from new wave communications technologies, including ADSL.

For the financial year ending March 31, 2002, we expect capital expenditure on plant, equipment and property to be around £4.9 billion, of which £1.5 billion would be incurred by BT Wireless.

Acquisitions

During the year ended March 31, 2001, BT completed the acquisition of a significant indirect interest in regional Japanese wireless companies (the J-Phone companies), acquired the 55 per cent. interest owned by its two venture partners in Viag Interkom, and the 50 per cent. interest in Telfort owned by its venture partner, and gained a further 17 per cent. interest in Telenordia.

J-Phone companies

BT's indirect interests in the three J-Phone cellular companies are mainly through J-Phone Communications Co Limited which holds more than 50 per cent. of the equity in these companies following a share issue in early May 2000. BT and Japan Telecom together own 74 per cent. of J-Phone Communications Co Limited. BT's overall economic interest in the J-Phone companies is around 20 per cent.. As noted above, we have now agreed to sell our interests to Vodafone for £3.7 billion. As part of this transaction, BT will exercise options to buy just under 5 per cent. of the shares in each of the three regional J-Phone operating companies from Japan Telecom for a total of £380 million.

Viag Interkom

After gaining regulatory clearances, BT took full control of Viag Interkom on February 20, 2001. Under the agreement originally announced in August 2000, BT bought from E.ON its 45 per cent. interest in Viag Interkom by means of a put option priced at Euro 7.25 billion (£4.6 billion). BT acquired the 10 per cent. interest in the company previously owned by Telenor in January 2001 for Euro 1.6 billion (£1.0 billion).

Viag Interkom was awarded a third generation mobile licence in Germany for DM 16.5 billion (£5.13 billion). The licence is for two 10 MHz blocks of spectrum. BT funded its original 45 per cent. share of the licence fee, amounting to £2,324 million, in early September 2000. BT took on the obligation to fund the remaining 55 per cent. share of the licence fee at the same time as we acquired E.ON and Telenor's interests. BT's total investment in Viag Interkom approximates

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£12 billion following the completion of these transactions, reduced by the goodwill impairment of £3.0 billion referred to earlier.

Telfort

In June 2000, BT acquired the 50 per cent. of Telfort it did not already own from the Dutch railways, for £1.2 billion. The consideration was paid on July 5 2000. A third generation mobile licence in The Netherlands was awarded to Telfort in July 2000 for £267 million.

Telenordia

In September 2000, BT increased its existing 33 per cent. interest in Telenordia to 50 per cent. for £94 million. Telenor similarly increased its stake to 50 per cent.. BT and Telenor are considering the listing of Telenordia which is based in Sweden.

UK third generation licence

In April 2000, BT won a third generation mobile licence in the UK auction. The payment of £4.03 billion for the licence was substantially made in May 2000.

Pensions

Accounting

Pension costs charged against the results for the year rose by £159 million to £326 million. The increase was, in part, due to the general trend towards longer life expectancy.

Additionally, BT employees agreeing to leave during the year caused approximately £430 million of incremental liabilities in the BT Pension Scheme. These costs are not charged in the group profit and loss account in the period, in accordance with UK accounting standards, because we had an adequate accounting surplus to absorb these costs.

Cash contributions

In addition to our normal contributions of £318 million to the BT Pension Scheme, we made a special contribution to the BT Pension Scheme of £200 million in December 2000 as a partial funding of the fund's deficit disclosed at the most recent actuarial valuation at December 31, 1999. A further contribution of £100 million was made in March 2001 as a result of the redundancies since the valuation. The payments have been charged against the group's existing pension provision and not the profit and loss account. The trustees of the BT Pension Scheme may require the company to make special contributions to cover the cost of redundancies on the fund.

Arrangements from April 1, 2001

From the beginning of April 2001 we have been offering new employees defined contribution pension benefits, having closed our defined benefit BT Pension Scheme to new entrants on March 31, 2001. Under the new arrangements, we are willing to match employees contributions up to a maximum of 10 per cent. of basic pay and an employee will be entitled to pension benefits from the individual fund which is built up over his or her working life.

The BT Pension Scheme, which had assets of £28.9 billion at December 31, 2000, continues to provide pension benefits for pensioners and employees who joined BT before March 31, 2001 under the existing arrangements which are unchanged.

LINES OF BUSINESS

BT's new lines of business were established during the year ended March 31, 2001. The business structure did not exist in the previous financial year and it has not been practical to provide comparative financial figures. The results discussed below include our proportionate share of the results of the ventures.

		<i>EBITDA (ii) before exceptional items</i>	<i>Total operating profit (loss) before goodwill amortisation and exceptional items</i>
<i>Year ended March 31, 2001</i>	<i>Total turnover £m</i>	<i>£m</i>	<i>£m</i>
BT Retail	11,813	1,188	1,004
BT Wholesale	11,493	4,278	2,540
BT Wireless	3,947	220	(225)
BT Ignite	3,861	47	(380)
Concert	2,576	170	19
Yell	778	223	210
BTopenworld	212	(253)	(296)
Eliminations and other (i)	(5,014)	1,675	539
Total before exceptional items	29,666	7,548	3,411

(i) Includes elimination of turnover between businesses which is included in total turnover of the originating business.

(ii) Includes proportionate EBITDA of associates and joint ventures.

BT Retail

BT Retail achieved an operating profit of £203 million, before exceptional items, in the fourth quarter on turnover of £2,955 million. In the year ended March 31, 2001, BT Retail contributed a profit of £1,004 million on turnover of £11,813 million. BT Retail's turnover is mainly derived from BT's UK fixed network customers through the provision of fixed network call services, exchange lines and private services. BT Retail is benefiting from growing internet and fixed to mobile non-geographic call volumes.

BT Retail's marketing strategy has continued to focus on the development of the BT Together range, replacing older and more complex pricing structures. The new choices package from BT Together, launched on December 1, 2000, offers unlimited off-peak voice and/or local internet calls for a fixed monthly fee. By March 31, 2001, 8 million customers (40 per cent. of BT Retail's residential customer base) were benefiting from one of the BT Together choices. Business customers are also moving on to BT Together packages, and by March 2001 more than 330,000 businesses were benefiting from a BT Together package tailored for their needs.

BT Retail's telemarketing strategy continues to be refocused on inbound customer calls rather than outbound calling. This has led to substantial improvements in customer satisfaction and significant cost savings, including the closure of two of our five call centres.

The BT Together packages have significantly improved the main geographic (voice) call trends on which we earn higher margins than on other calls. BT Retail residential lines at the end of the year were 67,000 lines (0.3 per cent.) down on the March 2000 position. BT Retail business lines grew by 339,000 during the year with the digital base improving by 22 per cent..

BT Retail's programme for the smaller business (SME) customers focused on defending and winning core business and growing new wave revenue. BT Retail is the leading internet service provider (ISP) for SME customers in the UK. For major business customers, the focus has been on growing the solutions business, providing customised communications

solutions for major corporate customers in the UK. The solutions business grew by more than 25 per cent. in the year, with major contracts secured with Liverpool City Council and the Alliance and Leicester bank in the fourth quarter.

Within our customer service organisation we have now equipped 17,000 field engineers with laptop computers, giving them improved testing capabilities and enabling better work distribution and management.

Our people had to deal with additional faults in autumn 2000 as a result of exceptionally severe floods and storms in the UK; regrettably, customers had to wait longer than would normally be expected for their service to be restored during that difficult period.

Close to £50 million has been invested in computer technology for our directory assistance service, enabling us to give a near instantaneous response to customer enquiries.

BT Wholesale

BT Wholesale achieved an operating profit of £670 million in the fourth quarter on turnover of £3,061 million. In the year ended March 31 2001, BT Wholesale contributed a profit of £2,540 million on turnover of £11,493 million. BT Wholesale's turnover is primarily internal to the BT group in providing UK network services to BT Retail, BT Wireless and the other BT lines of business. Its external turnover, which totalled £3,005 million in the year, is derived from providing wholesale products and solutions to other operators, including Concert, inter-connecting with BT's UK fixed network.

In November, BT Wholesale and Crown Castle UK entered into an agreement to provide fast-track site solutions and infrastructure to 3G mobile and wireless operators. BT and Crown Castle will jointly develop cellsites, under the REACH *services* name, enabling mobile operators to access BT Wholesale's fixed network both from BT sites and from Crown Castle properties. This should enable BT to unlock significant value through the development of roof-space and surroundings of 4,000 of its exchange buildings. Three of the 3G licence holders, including BT Cellnet, have agreed to lease sites from the combined property portfolio.

BT microCONNECT Payphones is our innovative, environmentally friendly managed cellsite solution. It uses low powered micro cells in payphones to relay calls between mobile phones and the mobile operators networks. The transmitters are intended to give mobile customers in urban areas better quality calls and increased reliability by cutting the number of blackspots.

BT Wholesale has moved closer to realising its vision of building the most advanced all-optical network in Europe through the selection of Marconi as its strategic technology partner. Marconi will act as sole supplier of BT's broadband optical equipment, incorporating leading edge DWDM technology, as well as supplying all of the existing core Synchronous Digital Hierarchy (SDH) network. The partnership will consolidate BT Wholesale's market and technical leadership in the area of core transmission.

Growth in UK core network traffic was met in the year to March 31, 2001 by the cut-over of 46 trunk exchanges to Next Generation Switches (NGS) which have doubled the capacity of the earlier exchanges. This brought the total of NGSs to 57 by March 31, 2001. In less than a year, we have replaced nearly half of the trunk switches. Plans are in place for introducing a further 13 NGSs and for the upgrade and expansion of 27 of the switches to include core Asynchronous Transfer Mode (ATM) switching by March 2002, which again potentially doubles the port capacity of each switch.

Growth in demand for network bandwidth was met by fast deployment of SDH technology with coverage from 2,123 nodes across the UK and with a capacity of 22 Terabit/s. We believe that BT is ahead of similar European operators in large scale deployment of leading edge, high capacity, SDH and Wavelength Division Multiplexing (WDM) technology. More than 750 nodes across the UK are already enabled with 10 Gigabit/s systems. (10 Gigabit/s is the equivalent of more than 120,000 simultaneous voice/data calls).

BT Wholesale has continued to play a major role in the Local Loop Unbundling (LLU) programme in the UK. BT was the first of the European incumbent telecommunication operators to make a reference offer for the full range of LLU products as required by the January 2001 EU regulation. We have met the objectives set for the January to March industry trial, and

are providing a broader scope of trial than that originally agreed with Oftel. The first co-location facilities beyond the trial were completed in April 2001.

BT Wholesale's ADSL rollout programme is progressing well. By the end of March 2001, we had enabled 839 exchanges around the UK to deliver ADSL services. This means that 50 per cent. of UK households are now in areas currently served by an ADSL enabled exchange. We are also enhancing our node capacity to support video service provider offerings within the M25 area around London. We have trained 1,400 BT engineers on the new broadband technology and by the year end we had connected 49,000 ADSL customers.

Capital expenditure for the full year of £2,273 million resulted mainly from growth and modernisation investment programmes. The expansion of the reach and capacity of the SDH network, the upgrade of the trunk switches to Next Generation Switches and of the Digital Local Exchanges to enable IP grooming and SurfTime functionality dominated expenditure on the core network. Investment in the access network continued to be driven by demand for both new copper and fibre lines and by quality and resilience improvement programmes.

BT Wireless

BT Wireless incurred an operating loss of £47 million before goodwill amortisation and exceptional items on turnover of £1,057 million in the fourth quarter. In the year ended March 31, 2001, BT Wireless incurred a loss of £225 million on turnover of £3,947 million. At March 31, 2001 BT Wireless had 16.9 million mobile subscribers of which 11.2 million are BT Cellnet's. BT Wireless continues to build on its lead in the sale of mobile internet phones with nearly two million customers in total, of which over one million are in the UK. The annual results are before an exceptional charge of £43 million relating to the write off of deferred subscriber acquisition costs, we have aligned the method of accounting for these in all group operations. We have also written off £43 million from Viag Interkom's redundant IT systems.

The profits, principally contributed by BT Cellnet, are more than offset by losses incurred mainly by Viag Interkom and Telfort. BT Cellnet is the prime contributor to BT Wireless' turnover.

BT Cellnet's customer base increased by 51 per cent. over the year to March 31, 2001 with over 0.9 million new customers added in the fourth quarter. Its customer base comprises 7.7 million pre-pay customers and 3.5 million in post-pay customers. BT Cellnet's total turnover grew to £3,031 million for the year. Its operating profit before exceptional items was £336 million and its EBITDA was £591 million in the year ended March 31, 2001. BT Cellnet remains the UK's leading network on international roaming coverage with agreements with operators in 126 countries.

Viag Interkom had a 3.7 million mobile customer base at March 31, 2001, with 0.6 million net additions in the fourth quarter and 2.4 million net additions in the year. The results continue to be affected by the costs associated with the higher number of mobile customers and aggressive handset subsidies in the German market. The mobile business is also suffering from a significant shift to pre-paid customers, leading to less revenue being generated on average from each customer. Viag Interkom has around 7 per cent. of the German mobile market.

Genie, our global mobile internet portal, which is now part of BT Wireless, made a small contribution to turnover. Genie experienced losses in its start up phase with an operating loss of £138 million on turnover of £13 million in the year. At March 31, 2001, Genie had about 4 million registered customers world-wide, more than trebling its registrations since April 1, 2000.

BT Ignite

BT Ignite was formed in July 2000 to exploit the growth potential in value added broadband and IP (internet) services businesses. BT Ignite is able to provide a wide range of IP and data services, including broadband networks, internet services, web-content hosting, media services, application service provision, and complex solutions and systems integration. BT Ignite has a presence in over 250 towns and cities across Europe. New investment in 21 regional data centres supports web data servers, content hosting and application service provision businesses.

BT Ignite's operations, including interests in ventures, cover 12 countries serviced by an integrated broadband enabled IP network covering more than 52,000 kms.

PART 4: PRELIMINARY RESULTS OF BT FOR THE YEAR ENDED 31 MARCH 2001

Turnover in BT Ignite was £1,145 million for the fourth quarter with an operating loss before goodwill amortisation of £90 million. In the year, BT Ignite's turnover was £3,861 million with a loss of £380 million.

Approximately 60 per cent. of BT Ignite's turnover is derived from the high end value added IP business (managed IP, complex solutions and systems integration and outsourcing), content hosting, media services and application service provision (ASP).

BT Ignite Solutions and Syntegra offer e-commerce consultancy and platform development, customer relationship management, large scale systems integration and applications development. Turnover from these services of £2,082 million has increased at over 24 per cent. in the year ended March 31, 2001. Turnover from broadband services and higher value added internet services grew to £612 million.

BTOpenworld

BTOpenworld incurred an operating loss of £90 million on turnover of £68 million in the fourth quarter. In the year it incurred a loss of £296 million on turnover of £212 million. BTOpenworld's turnover is derived principally from its UK and continental European narrowband internet access products.

The UK broadband enhanced internet service, a new line of business, made a small contribution to turnover. A significant proportion of BTOpenworld's losses were incurred in the development and launch of its UK broadband product range and the development of a small number of internet destination sites. The total number of equity internet service provider customers of BTOpenworld at March 31, 2001 was approximately 2.6 million, representing growth of approximately 60 per cent. since April 1, 2000. With over 650,000 customers on unmetered packages at March 31, 2001, BTOpenworld is a leading UK unmetered internet access provider.

Yell

Yell contributed an operating profit before goodwill amortisation of £63 million on turnover of £236 million in the fourth quarter. In the year, Yell achieved a profit of £210 million on turnover of £778 million. The results include its US operations in its first full year.

Concert

Concert's operating loss before goodwill amortisation and exceptional items attributable to BT for the three months ended March 31, 2001 was £89 million, reducing the share of profit for the year to £19 million. Concert is operating in a highly competitive international market and the recent fall in prices for carrying international traffic contributed to the loss for the fourth quarter. BT and AT&T are actively discussing various options relating to Concert, including ways to improve the performance of the business and strengthen the relationship. Concert management are taking action to reduce costs.

Prospects

The current trading and the prospects for the financial year are satisfactory.

The Annual Report and Form 20-F is expected to be published on June 4, 2001.

The Annual General Meeting of British Telecommunications plc will be held in Nottingham on July 18, 2001.

GROUP PROFIT AND LOSS ACCOUNT
for the three months and year ended March 31, 2001

		<i>Fourth quarter ended</i> <i>March 31,</i>		<i>Year ended</i> <i>March 31,</i>	
		<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>Notes</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Total turnover	3	7,747	6,002	29,666	21,903
Group's share of associates and joint ventures turnover	3	(2,512)	(1,435)	(9,937)	(3,364)
Trading between group and principal joint venture		187	176	698	176
Group turnover		5,422	4,743	20,427	18,715
Other operating income	4	139	132	393	242
Operating costs	5	(7,944)	(4,074)	(20,759)	(15,359)
Group operating profit (loss)		(2,383)	801	61	3,598
Group's share of operating losses of associates and joint ventures	6	(72)	(68)	(397)	(400)
Total operating profit (loss)		(2,455)	733	(336)	3,198
Profit on sale of fixed asset investments and group undertakings	7	54	36	619	126
Net interest payable	9	(422)	(140)	(1,314)	(382)
Profit (loss) before taxation		(2,823)	629	(1,031)	2,942
Profit before goodwill amortisation, exceptional items and taxation	10	319	742	2,072	3,100
Taxation		(96)	(192)	(652)	(897)
Profit (loss) after taxation		(2,919)	437	(1,683)	2,045
Minority interests		(15)	6	(127)	10
Profit (loss) attributable to shareholders		(2,934)	443	(1,810)	2,055
Dividends	8			(571)	(1,426)
Retained profit (transfer from reserves) for the financial year				(2,381)	629
Earnings (loss) per share	10				
– basic		(44.9)p	6.8p	(27.7)p	31.7p
– diluted		(44.9)p	6.7p	(27.7)p	30.9p
Earnings per share before goodwill amortisation and exceptional items	10				
– basic		3.0p	8.4p	20.5p	34.2p
– diluted		3.0p	8.2p	20.2p	33.4p

GROUP CASH FLOW STATEMENT
for the three months and year ended March 31, 2001

		<i>Fourth quarter ended</i>		<i>Year ended</i>	
		<i>March 31,</i>		<i>March 31,</i>	
		<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>Notes</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Net cash inflow from operating activities	11	2,186	1,517	5,887	5,849
Dividends from associates and joint ventures		1	1	10	5
Net cash inflow (outflow) from returns on investments and servicing of finance		(112)	10	(727)	(163)
Taxation paid		(423)	(898)	(669)	(1,311)
Purchase of intangible fixed assets		(12)	—	(4,208)	—
Purchase of tangible fixed assets		(1,428)	(920)	(4,756)	(3,568)
Net sale (purchase) of fixed asset investments		43	(165)	82	(327)
Sale of tangible fixed assets		365	59	440	143
Net cash outflow for capital expenditure and financial investment		(1,032)	(1,026)	(8,442)	(3,752)
Acquisitions		(8,889)	(548)	(14,501)	(7,165)
Disposals		157	581	747	760
Net cash inflow (outflow) for acquisitions and disposals		(8,732)	33	(13,754)	(6,405)
Equity dividends paid		(569)	(565)	(1,432)	(1,364)
Cash outflow before use of liquid resources and financing		(8,681)	(928)	(19,127)	(7,141)
Management of liquid resources		4,489	463	(480)	1,236
Issue of ordinary share capital		3	3	149	127
Issue of shares to minorities		—	—	36	432
New loans		6,030	—	14,552	1,473
Repayment of loans		(2)	(204)	(225)	(587)
Net movement on short-term borrowings		(1,967)	670	5,223	4,514
Net cash inflow from financing		4,064	469	19,735	5,959
Increase (decrease) in cash		(128)	4	128	54
Increase in net debt	14	(8,678)	(925)	(18,942)	(6,582)

GROUP BALANCE SHEET
at March 31, 2001

	Notes	2001 £m	2000 £m
Fixed assets			
Intangible assets	13	18,380	5,777
Tangible assets		21,625	18,163
Investments		5,204	5,878
		<u>45,209</u>	<u>29,818</u>
Current assets			
Stocks		361	225
Debtors		6,260	5,241
Investments		2,557	2,051
Cash at bank and in hand		412	253
		<u>9,590</u>	<u>7,770</u>
Creditors: amounts falling due within one year			
Loans and other borrowings		12,136	5,650
Other creditors		8,597	9,235
		<u>20,733</u>	<u>14,885</u>
Net current liabilities		<u>(11,143)</u>	<u>(7,115)</u>
Total assets less current liabilities		<u>34,066</u>	<u>22,703</u>
Creditors: amounts falling due after more than one year			
Loans and other borrowings		18,775	5,354
Provisions for liabilities and charges	15	723	1,056
Minority interests		499	498
Capital and reserves			
Called up share capital		1,646	1,627
Reserves	16	12,423	14,168
Total equity shareholders' funds		<u>14,069</u>	<u>15,795</u>
		<u>34,066</u>	<u>22,703</u>

NOTES

1 Basis of preparation

The preliminary results of the group, which are not statutory accounts, have been prepared on the basis of the accounting policies as set out in the report and accounts for the year ended March 31, 2000, except that loans and other borrowings are now stated as adjusted for the effect of currency swaps acting as hedges. The comparative figures have not been restated as the impact is not material. Figures for the year ended March 31, 2000 are extracts from the group accounts for that year.

The group accounts for the year ended March 31, 2001, have not yet been filed with the Registrar of Companies or reported on by the auditors.

2 Results of businesses

The tables below show the results of BT's new business organisation, which has been implemented during the year ended March 31, 2001, for the quarter and year ended March 31, 2001. Elements of the information are a restatement of the actual results and net assets of the group to show the businesses as if they had traded as separate units throughout the relevant period. The information includes allocations and apportionments of turnover and costs. These allocations and apportionments in some cases are estimated and, as such, are subject to review and may change. There is extensive trading between many of the business units and profitability is dependent on the transfer price levels. These intra-group trading arrangements are also subject to review and may change.

PART 4: PRELIMINARY RESULTS OF BT FOR THE YEAR ENDED 31 MARCH 2001

(a) Operating results

	<i>Total turnover £m</i>	<i>EBITDA(ii) before exceptional items £m</i>	<i>Total operating profit (loss) before goodwill amortisation and exceptional items £m</i>
<i>Fourth quarter ended March 31, 2001</i>			
BT Retail	2,955	261	203
BT Wholesale	3,061	1,122	670
BT Wireless	1,057	109	(47)
BT Ignite	1,145	50	(90)
Concert	605	(48)	(89)
Yell	236	67	63
BTopenworld	68	(66)	(90)
Eliminations and other (i)	(1,380)	432	121
Total before exceptional items	7,747	1,927	741
Exceptional items and goodwill amortisation	—	(43)	(3,196)
Total after exceptional items	7,747	1,884	(2,455)
<i>Year ended March 31, 2001</i>			
BT Retail	11,813	1,188	1,004
BT Wholesale	11,493	4,278	2,540
BT Wireless	3,947	220	(225)
BT Ignite	3,861	47	(380)
Concert	2,576	170	19
Yell	778	223	210
BTopenworld	212	(253)	(296)
Eliminations and other (i)	(5,014)	1,675	539
Total before exceptional items	29,666	7,548	3,411
Exceptional items and goodwill amortisation	—	11	(3,747)
Total after exceptional items	29,666	7,559	(336)

(i) Includes elimination of turnover between businesses which is included in total turnover of the originating business.

(ii) Includes proportionate EBITDA of associates and joint ventures.

PART 4: PRELIMINARY RESULTS OF BT FOR THE YEAR ENDED 31 MARCH 2001

Analysis of operating results of certain lines of business

			<i>Operating profit (loss)</i>
		<i>EBITDA before goodwill before amortisation</i>	
	<i>Total turnover</i>	<i>exceptional items</i>	<i>and exceptional items</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
<i>Three months ended March 31, 2001</i>			
BT Wireless			
Group	926	126	(6)
Share of ventures	131	(17)	(41)
Total	1,057	109	(47)
BT Ignite			
Group	1,058	53	(66)
Share of ventures	87	(3)	(24)
Total	1,145	50	(90)
BTopenworld			
Group	58	(61)	(83)
Share of ventures	10	(5)	(7)
Total	68	(66)	(90)
<i>Year ended March 31, 2001</i>			
BT Wireless			
Group	3,408	356	3
Share of ventures	539	(136)	(228)
Total	3,947	220	(225)
BT Ignite			
Group	3,470	101	(261)
Share of ventures	391	(54)	(119)
Total	3,861	47	(380)
BTopenworld			
Group	167	(190)	(227)
Share of ventures	45	(63)	(69)
Total	212	(253)	(296)

PART 4: PRELIMINARY RESULTS OF BT FOR THE YEAR ENDED 31 MARCH 2001

(b) Capital expenditure on plant, equipment and property

	<i>Fourth quarter ended March 31, 2001 £m</i>	<i>Year ended March 31, 2001 £m</i>
BT Retail	24	157
BT Wholesale	717	2,273
BT Wireless	486	1,105
BT Ignite	394	936
Yell	8	21
BTopenworld	—	25
Other	151	469
Total	<u>1,780</u>	<u>4,986</u>

(c) Net assets

	<i>Net operating assets (liabilities)(i) £m</i>	<i>Associates and joint ventures £m</i>
<i>At March 31, 2001</i>		
BT Retail	1,114	—
BT Wholesale	12,511	—
BT Wireless	18,634	27
BT Ignite	3,584	178
Concert	—	1,430
Yell	710	2
BTopenworld	(17)	12
Other	1,033	2,507
Total	<u>37,569</u>	<u>4,156</u>

- (i) Net operating assets comprise tangible and intangible fixed assets, stocks, debtors less creditors, excluding loans and other borrowings, and provisions for liabilities and charges, excluding deferred tax.

PART 4: PRELIMINARY RESULTS OF BT FOR THE YEAR ENDED 31 MARCH 2001

3 Turnover

	<i>Fourth quarter ended</i> <i>March 31,</i>		<i>Year ended March 31,</i>	
	<i>2001</i> <i>£m</i>	<i>2000</i> <i>£m</i>	<i>2001</i> <i>£m</i>	<i>2000</i> <i>£m</i>
Fixed network calls	1,383	1,440	5,655	5,908
Exchange lines	970	898	3,674	3,526
Receipts from other operators (a)	805	572	2,814	1,974
Wireless (b)	752	557	2,760	2,170
Private services	277	256	1,091	1,135
Solutions	340	236	1,074	915
Yellow Pages and other directories	236	198	754	642
Customer premises equipment supply	178	197	726	847
Other sales and services	481	389	1,879	1,598
Group turnover	5,422	4,743	20,427	18,715
Share of associates and joint ventures turnover (note 20)	2,512	1,435	9,937	3,364
Group trading with principal joint venture	(187)	(176)	(698)	(176)
Total turnover	7,747	6,002	29,666	21,903

	<i>Fourth quarter ended</i> <i>March 31,</i>		<i>Year ended March 31,</i>	
	<i>2001</i> <i>£m</i>	<i>2000</i> <i>£m</i>	<i>2001</i> <i>£m</i>	<i>2000</i> <i>£m</i>
<i>(a) Receipts from other operators</i>				
Concert global venture	204	181	804	181
International operators for incoming and transit international calls to or through the UK	—	—	—	483
UK operators and other	601	391	2,010	1,310
Total	805	572	2,814	1,974
<i>(b) Wireless</i>				
UK	561	557	2,293	2,170
Non UK	191	—	467	—
Total	752	557	2,760	2,170

4 Other operating income

	<i>Fourth quarter ended</i> <i>March 31,</i>		<i>Year ended March 31,</i>	
	<i>2001</i> <i>£m</i>	<i>2000</i> <i>£m</i>	<i>2001</i> <i>£m</i>	<i>2000</i> <i>£m</i>
Provision of administration services to the Concert global venture	37	79	168	79
Other	102	53	225	163
Total	139	132	393	242

PART 4: PRELIMINARY RESULTS OF BT FOR THE YEAR ENDED 31 MARCH 2001

5 Operating costs

	<i>Fourth quarter ended</i>		<i>Year ended March 31,</i>	
	<i>March 31,</i>			
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Staff costs	1,187	1,104	4,625	4,296
Own work capitalised	(173)	(150)	(693)	(498)
Depreciation	893	729	3,045	2,752
Amortisation of goodwill and other intangibles (a)	3,120	52	3,386	89
Payments to telecommunication operators (b)	994	851	3,802	3,086
Other operating costs (c)	1,923	1,488	6,594	5,634
Total operating costs (d)	7,944	4,074	20,759	15,359
<i>(a) Amortisation of goodwill and other intangibles</i>				
Goodwill amortisation	115	52	373	89
Goodwill impairment charge	3,000	—	3,000	—
Other intangibles amortisation	5	—	13	—
Total	3,120	52	3,386	89
<i>(b) Payments to telecommunication operators</i>				
UK fixed network payments to UK operators	694	527	2,437	1,694
UK fixed network payments to Concert global venture or non-UK operators for international calls	136	180	609	668
BT Cellnet payments to other operators	49	83	273	348
Non UK operations	115	61	483	376
Total	994	851	3,802	3,086
<i>(c) Other operating costs</i>				
UK fixed network and other costs	1,180	978	3,848	3,635
Wireless	330	286	1,610	1,284
Non-UK fixed network operations	291	100	707	389
Yellow Pages and other directories	113	84	325	267
Total before redundancy costs	1,914	1,448	6,490	5,575
Redundancy costs	9	40	104	59
Total	1,923	1,488	6,594	5,634
<i>(d) Includes exceptional costs (credits)</i>				
Rates refunds	—	—	(193)	—
Goodwill impairment in Viag Interkom (Note 13)	3,000	—	3,000	—
Write down of Viag Interkom's IT systems assets on division of company into fixed and wireless businesses	43	—	43	—
Write off of subscriber acquisition costs	—	—	7	—
Costs relating to group's disengagement from MCI	—	22	—	64
Costs relating to closure of BT Cellnet's analogue cellular system	—	47	—	47
Total costs	3,043	69	2,857	111

PART 4: PRELIMINARY RESULTS OF BT FOR THE YEAR ENDED 31 MARCH 2001

6 Group's share of losses of associates and joint ventures

The results for the year ended March 31, 2001 include £132m for the write off of subscriber acquisition costs. The results are shown after charging goodwill amortisation of £385m for the year ended March 31, 2001 (2000 — £84m) and £38m (2000 — £28m) for the three months ended March 31, 2001. The amortisation for the year ended March 31, 2001 includes £200m for the impairment of goodwill in ventures.

7 Profit on sale of fixed asset investments and group undertakings

The profit in the year ended March 31, 2001 is mainly attributable to the profit of £454m on the sale of BT's interest in sunrise communications in November 2000. In addition, a profit has been realised on the sale of BT's aeronautical and maritime business in December 2000 and a profit was realised in the initial public offering of I.Net SpA in April 2000. The profit on sale in the year ended March 31, 2000 was mainly attributable to the sale of BT Communications Services KK to Japan Telecom in August 1999.

8 Dividends

	<i>Year ended March 31,</i>		<i>Year ended March 31,</i>	
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>pence per share</i>		<i>£m</i>	<i>£m</i>
Interim dividend	8.70	8.70	571	565
Proposed final dividend	—	13.20	—	861
	<u>8.70</u>	<u>21.90</u>	<u>571</u>	<u>1,426</u>

9 Interest payable

	<i>Fourth quarter ended March 31,</i>		<i>Year ended March 31,</i>	
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Group	482	154	1,426	488
Joint ventures and associates	80	36	296	87
Total interest payable	<u>562</u>	<u>190</u>	<u>1,722</u>	<u>575</u>
Interest receivable (a)	<u>(140)</u>	<u>(50)</u>	<u>(408)</u>	<u>(193)</u>
Net interest payable	<u>422</u>	<u>140</u>	<u>1,314</u>	<u>382</u>

(a) Includes exceptional credit of £25m in the three months ended December 31, 2001 relating to interest on rates refunds.

10 Earnings (loss) per share

The basic earnings (loss) per share are calculated by dividing the profit (loss) attributable to shareholders by the average number of shares in issue after deducting the company's shares held by employee share ownership trusts. In calculating the diluted earnings per share, share options outstanding and other potential ordinary shares have been taken into account. The diluted loss per share is shown as the same as the basic loss per share.

The average number of shares in the periods were:

	<i>Fourth quarter ended</i>		<i>Year ended March 31,</i>	
	<i>March 31,</i>			
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>millions of shares</i>		<i>millions of shares</i>	
Basic	6,539	6,496	6,525	6,488
Diluted	6,608	6,650	6,621	6,642

The items in the calculation of the earnings per share before exceptional items and goodwill amortisation are:

	<i>Fourth quarter ended</i>		<i>Year ended March 31,</i>	
	<i>March 31,</i>			
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Profit on sale of group undertakings and fixed asset investments	54	36	619	126
Rates refunds relating to prior periods	—	—	193	—
Goodwill impairment in Viag Interkom	(3,000)	—	(3,000)	—
Goodwill impairment in joint ventures	—	—	(200)	—
Write off of subscriber acquisition costs	—	—	(139)	—
Write down of Viag Interkom's integrated IT systems on division of business into fixed and wireless units	(43)	—	(43)	—
Interest receivable on rates refunds	—	—	25	—
Costs relating to the closure of the analogue cellular systems	—	(47)	—	(47)
Costs relating to the disengagement from MCI	—	(22)	—	(64)
Goodwill amortisation	(153)	(80)	(558)	(173)
	(3,142)	(113)	(3,103)	(158)
Tax credit (charge) attributable	13	10	(22)	(5)
Minority interests attributable	—	—	(21)	—
Net charge	(3,129)	(103)	(3,146)	(163)

PART 4: PRELIMINARY RESULTS OF BT FOR THE YEAR ENDED 31 MARCH 2001

11 Reconciliation of operating profit to operating cash flow

	<i>Fourth quarter ended</i>		<i>Year ended March 31,</i>	
	<i>March 31,</i>			
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Group operating profit (loss)	(2,383)	801	61	3,598
Depreciation and amortisation	4,013	781	6,431	2,841
Changes in working capital	712	241	(296)	(241)
Provision movements and other	(156)	(306)	(309)	(349)
Net cash inflow from operating activities	2,186	1,517	5,887	5,849

12 Expenditure on tangible fixed assets

	<i>Fourth quarter ended</i>		<i>Year ended March 31,</i>	
	<i>March 31,</i>			
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Plant and equipment:				
Transmission equipment	810	464	2,295	1,563
Exchange equipment	137	113	479	413
Other network equipment	474	261	1,180	703
Computers and office equipment	222	186	574	502
Motor vehicles and other	69	73	251	257
Changes in engineering stores	(3)	3	(3)	13
Land and buildings	71	60	210	229
Total expenditure	1,780	1,160	4,986	3,680

13 Intangible assets

	<i>At March 31,</i>	
	<i>2001</i>	<i>2000</i>
	<i>£m</i>	<i>£m</i>
Goodwill	8,648	5,775
Mobile licences and other	9,732	2
	18,380	5,777

In June 2000, the group completed the acquisition of the Dutch railways' 50 per cent. interest in Telfort for £1,207m, including expenses. Goodwill of £986m arose on this transaction which is being amortised over a period of 20 years.

In January and February 2001, the group completed the acquisition of the 55 per cent. interest in Viag Interkom that it did not already own for £5,605m, including expenses. Goodwill of £4,992m arose on this transaction. The consideration for acquisition of the 55 per cent. interest was negotiated in August 2000. An impairment review of the Viag Interkom goodwill has been undertaken as required by FRS 11, the UK accounting standard on the impairment of fixed assets. Under this review, a value in use for Viag Interkom has been established as at March 31, 2001 using the discounted cash flow methodology prescribed by the accounting standard. The assumptions have incorporated reduced expectations for the rate of growth in profits in the medium term. The resulting impairment of £3,000m in goodwill has been charged as an exceptional item in the three months and year ended March 31, 2001. The net book value of this goodwill amounting to £1,921m after the impairment provision is being amortised over 20 years.

PART 4: PRELIMINARY RESULTS OF BT FOR THE YEAR ENDED 31 MARCH 2001

In April 2000, the group won a third generation mobile licence in the UK government's auction. The licence, which cost £4,030m, will be amortised over its remaining 20-year term from the date of launch of services using the licensed radio spectrum.

In August 2000, Viag Interkom won a third generation mobile licence in the German government's auction. The licence, which cost £5.13m, will be similarly amortised over its remaining 20-year term from the date of launch of service.

14 Net debt

(a) Analysis

	<i>At March 31,</i>	
	<i>2001</i>	<i>2000</i>
	<i>£m</i>	<i>£m</i>
Long-term loans and other borrowings falling due after more than one year	18,775	5,354
Short-term borrowings and long-term loans and other borrowings falling due within one year	12,136	5,650
Total debt	30,911	11,004
Short-term investments	(2,557)	(2,051)
Cash at bank	(412)	(253)
Net debt at end of period	27,942	8,700

(b) Reconciliation of net cash flow to movement in net debt

	<i>Fourth quarter ended</i>		<i>Year ended March 31,</i>	
	<i>March 31,</i>		<i>2001</i>	<i>2000</i>
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Net debt at beginning of period	19,050	6,987	8,700	953
Increase in net debt resulting from cash flows	8,678	925	18,942	6,582
Net debt assumed or issued on acquisitions	2	732	48	971
Currency movements	5	58	26	124
Other non-cash movements	207	(2)	226	70
Net debt at end of period	27,942	8,700	27,942	8,700

15 Provisions for liabilities and charges

	<i>At March 31,</i>	
	<i>2001</i>	<i>2000</i>
	<i>£m</i>	<i>£m</i>
Pension provisions	335	629
Deferred taxation	270	354
Other provisions	118	73
	723	1,056

PART 4: PRELIMINARY RESULTS OF BT FOR THE YEAR ENDED 31 MARCH 2001

16 Reserves

	<i>£m</i>
Balance at April 1, 2000	14,168
Loss for the financial year transferred	(2,381)
Currency movements (a)	429
Premium on allotment of ordinary shares	615
Movement relating to BT's employee share ownership trust	(359)
Other movements	(49)
Balance at March 31, 2001	12,423

(a) Including £65m movement on the retranslation of foreign borrowings and other hedging instruments.

17 Esat Telecom Group

On March 30, 2000, BT obtained control of the Esat Telecom Group for approximately £1.5bn. Esat operates a fixed line telecommunications network in Ireland. BT also gained control over Esat Digifone, Ireland's second mobile operator, through Esat's 49.5 per cent. interest in the company and an additional 1.0 per cent. interest acquired by the BT group in January 2000. The majority of the consideration for the Esat Telecom Group was paid in April 2000.

In February 2001, Telenor, the owner of the remaining 49.5 per cent. interest in Esat Digifone, decided to sell this interest to BT for approximately US\$1,238m under an agreement made in January 2000. The transaction was completed on April 18, 2001.

18 Contingencies

BT has provided guarantees amounting to £782m in respect of bank loans provided to J-Phone Communications.

19 Earnings before interest, taxation, depreciation and amortisation (EBITDA)

	<i>Fourth quarter ended March 31,</i>		<i>Year ended March 31,</i>	
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Group operating profit (loss)	(2,383)	801	61	3,598
Depreciation	893	729	3,045	2,752
Amortisation	3,120	52	3,386	89
EBITDA	1,630	1,582	6,492	6,439
Exceptional items, excluding depreciation and amortisation	43	30	(143)	63
Estimated impact of the Concert global venture	—	—	—	(191)
Impact of acquisitions	70	—	111	—
EBITDA before exceptional items, the impact of the Concert global venture and acquisitions	1,743	1,612	6,460	6,311

PART 4: PRELIMINARY RESULTS OF BT FOR THE YEAR ENDED 31 MARCH 2001

20 Results of associates and joint ventures

	<i>Turnover</i>	<i>EBITDA before</i>	<i>Total operating</i>
	<i>£m</i>	<i>exceptional items</i>	<i>profit (loss)</i>
		<i>£m</i>	<i>before</i>
			<i>goodwill</i>
			<i>amortisation</i>
			<i>and exceptional</i>
			<i>items</i>
			<i>£m</i>
Group's share			
<i>Fourth quarter ended March 31, 2001</i>			
Japanese investments and other	1,547	221	48
Concert global venture	605	(48)	(89)
Cegetel	178	77	44
Viag Interkom (<i>to February 19, 2001</i>)	106	(25)	(54)
Airtel	76	26	17
Total	<u>2,512</u>	<u>251</u>	<u>(34)</u>
<i>Year ended March 31, 2001</i>			
Japanese investments and other (a)	5,766	917	231
Concert global venture	2,576	170	19
Cegetel	860	196	90
Viag Interkom (<i>to February 19, 2001</i>)	449	(174)	(277)
Airtel	286	87	57
Total	<u>9,937</u>	<u>1,196</u>	<u>120</u>

(a) In the six months to September 30, 2000, BT's share of Japan Telecom's and J-Phone's results were EBITDA of £498m, operating profit of £253m before goodwill amortisation on turnover of £2,180m. After interest, tax and minority interests, the profit attributable to BT's shareholders from these investments was £22m.

PART 4: PRELIMINARY RESULTS OF BT FOR THE YEAR ENDED 31 MARCH 2001

21 Results of certain subsidiaries

	Turnover £m	EBITDA before exceptional items £m	Total operating profit (loss) before goodwill amortisation and exceptional items £m
<i>Fourth quarter ended March 31, 2001</i>			
BT Cellnet group	765	205	119
Viag Interkom	316	(75)	(160)
Esat Digifone	92	27	13
Telfort	86	(23)	(47)
Esat Telecom	35	(5)	(15)
<i>Year ended March 31, 2001</i>			
BT Cellnet group	3,031	591	336
Viag Interkom	1,078	(407)	(656)
Esat Digifone	312	69	20
Telfort	301	(118)	(195)
Esat Telecom	124	(12)	(48)

22 United States Generally Accepted Accounting Principles

The results set out above have been prepared in accordance with accounting principles generally accepted in the United Kingdom. The table below sets out the results calculated in accordance with United States Generally Accepted Accounting Principles.

	<i>Fourth quarter ended March 31,</i>		<i>Year ended March 31,</i>	
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Net income (loss) attributable to shareholders	(2,720)	8	(2,357)	1,393
Earnings (loss) per ADS (£)	(4.16)	0.01	(3.61)	2.15

Each American Depositary Share (ADS) represents 10 ordinary shares of 25p each.

Shareholders' equity, calculated in accordance with United States Generally Accepted Accounting Principles, is £10,231m at March 31, 2001 (2000 — £13,634m).

Non-financial statistics

As at March 31, 2001, unless otherwise stated

BT Wireless — selected operations

BT Cellnet:

Pre-pay customer base (000s)	7,707
Post-pay customer base (000s)	3,455
Total customer base (000s)	11,162
2½ generation and WAP customers (000s)	1,500
Pre-pay ARPU (£ per year)	100
Post-pay ARPU (£ per year)	525
Blended ARPU (£ per year)	269

Viag Interkom:

Pre-pay customer base (000s)	2,026
Post-pay customer base (000s)	1,694
Total customer base (000s)	3,720
2½ generation and WAP customers (000s)	346
Pre-pay ARPU (£ per year)	81
Post-pay ARPU (£ per year)	330
Blended ARPU (£ per year)	219

Esat Digifone:

Pre-pay customer base (000s)	727
Post-pay customer base (000s)	332
Total customer base (000s)	1,059
2½ generation and WAP customers (000s)	135
Pre-pay ARPU (£ per year)	211
Post-pay ARPU (£ per year)	672
Blended ARPU (£ per year)	376

Telfort:

Pre-pay customer base (000s)	745
Post-pay customer base (000s)	173
Total customer base (000s)	918
Pre-pay ARPU (£ per year)	72
Post-pay ARPU (£ per year)	482
Blended ARPU (£ per year)	139

Note: ARPU is the annual average revenue per user

PART 4: PRELIMINARY RESULTS OF BT FOR THE YEAR ENDED 31 MARCH 2001

As at March 31, 2001, unless otherwise stated

BT Retail and Wholesale

Exchange lines:

Business, including wholesale (000s)	8,910
Residential, including service providers (000s)	20,040
Optical fibre in network (km millions)	5.1
SDH nodes	2,123
Next generation trunk switches	57
Digital local exchanges with IP grooming (a)	780
BT Dial IP ports connected to groomed local exchanges (000s)	284
ADSL enabled exchanges	839
ADSL lines provided (000s)	49

(a) Grooming applies to internet type calls originating from BT customers. These calls are grouped together and then routed directly to BT's Dial IP platform or other operators' networks.

BT Ignite

Inter-city fibre network (kms)	52,000
Web hosting centres	21

BTopenworld

Fixed ISP customers:

Through wholly owned subsidiaries (000s)	1,787
Through ventures (000s)	2,677
Equity customers (000s)	2,596
ADSL customers (000s)	25

Forward-looking statements — caution advised

Certain statements in this results release are forward-looking and are made in reliance on the safe harbour provisions of the US Private Securities Litigation Reform Act of 1995. These statements include, without limitation, those concerning: expectations regarding turnover, costs, growth and the communications industry; the possible or assumed future results of operations of BT and/or its associates and joint ventures; the impact on BT of Concert, the global venture with AT&T; expectations regarding capital expenditure and investment plans; expectations regarding the disposal of non-core businesses, intentions regarding the demerger of BT Wireless and the demerger or sale of Yell and the level of BT's borrowings.

Although BT believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: material adverse changes in economic conditions in the markets served by BT and its new businesses; future regulatory actions and conditions in BT's operating areas, including competition from others in the UK and other international communications markets; technological innovations, including the cost of developing new products and the need to increase expenditure improving the quality of service; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs; developments in the convergence of technologies; the timing of entry and profitability of BT, its new businesses and Concert in certain national and international markets and fluctuations in foreign currency exchange rates and interest rates; BT's ability to fulfil its intentions regarding BT Wireless and Yell."

PART 5: PRO FORMA FINANCIAL INFORMATION FOR THE YEAR ENDED 31 MARCH 2001

Introduction

The following unaudited pro forma consolidated financial information has been prepared for illustrative purposes only to show the effects on the profit and loss account of BT of the proposed Rights Issue as if it had occurred on 1 April 2000 and on the balance sheet of BT as if the Rights Issue had occurred on 31 March 2001.

BT took full ownership of Viag Interkom by purchasing the remaining stakes from Viag Interkom's other shareholders in January and February 2001 for £5.6 billion. As part of this purchase, the Group also repaid loans totalling £2.9 billion between Viag Interkom and its other shareholders, which, together with a loan from BT, had been used to fund Viag Interkom's 3G licence. These payments were primarily funded by the issuance of long-term debt. The unaudited pro forma consolidated profit and loss account has been adjusted to show the effects of the Group's additional investment in Viag Interkom as if this investment, and the total payment for Viag Interkom's purchase of the 3G licence for £5.2 billion, for which BT had already contributed £2.3 billion, had occurred on 1 April 2000.

As set out in Part 1 of this document the Group has announced that it plans to seek a demerger and listing for BT Wireless and is currently considering proposals to sell or demerge its Yell business. Note 2 to the pro forma financial information provides a further analysis of the pro forma BT profit and loss account for the year ended 31 March 2001 and balance sheet as at 31 March 2001 between BT Wireless, Yell and the Group's remaining businesses ("Future BT").

The unaudited pro forma financial information below has been included for illustrative purposes only and, because of its nature, may not give a true and fair picture of the results and the financial position of BT following the completion of the Rights Issue or the acquisition of Viag Interkom.

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

	Adjustments				
	Viag Interkom		Rights Issue		
	Results for the year ended 31 March	Other pro forma adjustments	Interest on proceeds	Pro forma BT	
	BT (note 1a)	2001 (note 1b)	(note 1c)	(note 1d)	(note 2)
	£m	£m	£m	£m	£m
Group turnover	20,427	1,078	(100)	—	21,405
Other operating income	393	—	—	—	393
Operating costs	(20,759)	(1,855)	(36)	—	(22,650)
Group operating profit/(loss)	61	(777)	(136)	—	(852)
Group's share of operating loss of joint ventures and associates	(397)	—	277	—	(120)
Total operating profit/(loss)	(336)	(777)	141	—	(972)
Profit on sale of group undertakings and fixed asset investments	619	12	(12)	—	619
Net interest payable	(1,314)	(176)	(420)	382	(1,528)
Profit/(loss) on ordinary activities before taxation	(1,031)	(941)	(291)	382	(1,881)
Tax on profit/(loss) on ordinary activities	(652)	—	301	(115)	(466)
Profit/(loss) on ordinary activities after taxation	(1,683)	(941)	10	267	(2,347)
Minority interests	(127)	—	—	—	(127)
Profit/(loss) for the financial year	(1,810)	(941)	10	267	(2,474)

Pro forma consolidated balance sheet as at 31 March 2001

		<i>Adjustment</i>	
	<i>BT</i>	<i>Proceeds of</i>	<i>Pro forma BT</i>
	<i>(note 1a)</i>	<i>rights issue</i>	<i>(note 2)</i>
	<i>£m</i>	<i>(note 1d)</i>	<i>£m</i>
Fixed assets			
Intangible assets	18,380	—	18,380
Tangible assets	21,625	—	21,625
Investments	5,204	—	5,204
Total fixed assets	<u>45,209</u>	<u>—</u>	<u>45,209</u>
Current assets			
Stocks	361	—	361
Debtors	6,260	—	6,260
Investments	2,557	—	2,557
Cash at bank and in hand	412	—	412
Total current assets	<u>9,590</u>	<u>—</u>	<u>9,590</u>
Creditors: amounts falling due within one year			
Loans and other borrowings	(12,136)	5,875	(6,261)
Other creditors	(8,597)	—	(8,597)
Total creditors: amounts falling due within one year	<u>(20,733)</u>	<u>5,875</u>	<u>(14,858)</u>
Net current assets (liabilities)	<u>(11,143)</u>	<u>5,875</u>	<u>(5,268)</u>
Total assets less current liabilities	<u>34,066</u>	<u>5,875</u>	<u>39,941</u>
Creditors: amounts falling due after more than one year			
Loans and other borrowings	(18,775)	—	(18,775)
Provisions for liabilities and charges	<u>(723)</u>	<u>—</u>	<u>(723)</u>
Total net assets	<u>14,568</u>	<u>5,875</u>	<u>20,443</u>
Minority interests	499	—	499
Capital and reserves	14,069	5,875	19,944
	<u>14,568</u>	<u>5,875</u>	<u>20,443</u>

Notes to the pro forma consolidated financial information

1. Basis of preparation

The unaudited pro forma consolidated financial information has been prepared in accordance with UK GAAP.

BT

(a) Financial information in respect of BT as at and for the year ended 31 March 2001 has been extracted without material adjustment from the unaudited preliminary announcement of results for the year ended 31 March 2001 set out in Part 4 of this document.

Viag Interkom

(b) The Group's interest in Viag Interkom was accounted for as a joint venture interest in the period 1 April 2000 to 19 February 2001 and as a subsidiary in the period 20 February 2001 to 31 March 2001. For the purposes of the pro forma consolidated financial information, adjustments have been made to account for Viag Interkom as if it had been a subsidiary undertaking throughout the year ended 31 March 2001. Accordingly this column incorporates the results of Viag Interkom for the year ended 31 March 2001 and is extracted without material adjustment from the group return of Viag Interkom prepared for inclusion in the BT Group results for the year ended 31 March 2001. In the "other pro forma adjustments" column, the results of Viag Interkom incorporated in the preliminary announcement of results of BT for its year ended 31 March 2001 have been eliminated as set out in note (c) below.

(c) Other pro forma profit and loss account adjustments in respect of the Group's acquisition of Viag Interkom reflect:

	(i) <i>Eliminate Viag Interkom as subsidiary £m</i>	(ii) <i>Eliminate Viag Interkom as associate £m</i>	(iii) <i>Interest on incremental debt £m</i>	(iv) <i>Pro forma goodwill £m</i>	(v) <i>Tax credit for Viag losses £m</i>	<i>Total £m</i>
Impact on:						
Group turnover	(100)	—	—	—	—	(100)
Operating costs	193	—	—	(229)	—	(36)
Group operating profit/(loss)	93	—	—	(229)	—	(136)
Group's share of operating loss of joint ventures and associates	—	277	—	—	—	277
Total operating profit/(loss)	93	277	—	(229)	—	141
Profit on sale of group undertakings and fixed asset investments	(12)	—	—	—	—	(12)
Net interest payable	28	70	(518)	—	—	(420)
Profit/(loss) on ordinary activities before tax	109	347	(518)	(229)	—	(291)
Tax on profit/(loss) on ordinary activities	(32)	(104)	155	—	282	301
Profit/(loss) on ordinary activities after taxation	77	243	(363)	(229)	282	10

- (i) Elimination of the accounting for Viag Interkom as a subsidiary, and related tax credit arising from group relief on Viag Interkom's losses, from 20 February 2001 to 31 March 2001.
- (ii) Elimination of the accounting for Viag Interkom as a joint venture, and related tax credit arising from group relief on Viag Interkom's losses, for the period from 1 April 2000 to 19 February 2001.
- (iii) An increase in interest payable of £518 million, to reflect the purchase of the remaining 55 per cent. of Viag Interkom for £5.6 billion on 1 April 2000 and the total cost of funding Viag Interkom's 3G licence of £5.2 billion based on the increase in long-term fixed rate debt at the average rate to the Group for the year ended 31 March 2001 of 7.1 per cent.. Tax on the additional interest has been reflected at 30 per cent..
- (iv) Adjustment to the goodwill amortisation charge by £229 million in respect of the goodwill arising on the acquisition of the additional stake in Viag Interkom to incorporate a full year's charge. A goodwill impairment charge of £3,000 million has been made at 31 March 2001 and thus the full year's amortisation charge is expected to be £100 million from 1 April 2001 based on the revised book value of goodwill.
- (v) Adjustment to the Group tax charge to reflect group relief for Viag Interkom's losses at 30 per cent..

Right Issue

(d) This assumes that the proposed Rights Issue of up to 1,975,580,052 billion shares at 300 pence per share will raise £5,927 million which after deduction of anticipated costs of £52 million associated with the Rights Issue will give net proceeds of £5,875 million. For the purposes of the pro forma consolidated financial information proceeds have been applied to reduce short-term Group borrowings.

The impact on Group interest payable has been calculated as if the proceeds from the Rights Issue were received on 1 April 2000, with a resulting reduction in the annual interest charge of £382 million based on the Group's average interest rate for short term debt of 6.5 per cent. for the year ended 31 March 2001.

PART 5: PRO FORMA FINANCIAL INFORMATION FOR THE YEAR ENDED 31 MARCH 2001

Tax relief on this interest has been included at 30 per cent..

(e) No account has been taken of any trading of any constituent parts of BT since 31 March 2001 or the effect of the disposal of the Group's shareholdings in Japan Telecom Co Ltd, J-Phone telecommunications KK, Airtel Moviles S.A. and Maxis Communications.

2. Analysis of pro forma financial information

As set out in Part 1 of this document, the Group has announced that it plans to seek a demerger and listing for BT Wireless and is currently considering proposals to sell or demerge its Yell business. The BT pro forma financial information has been further analysed below between Future BT, BT Wireless and Yell for illustrative purposes only on the basis set out in notes 2(i) to (iii). This analysis does not purport to represent what the results of or financial position of Future BT, BT Wireless and Yell would have been if they had been managed separately for the year ended or as at 31 March 2001.

a) Analysis of pro forma consolidated profit and loss account for the year ended 31 March 2001

	<i>Pro forma Group turnover £m</i>	<i>Pro forma Group EBITDA* £m</i>	<i>Pro forma Group operating profit/(loss) £m</i>	<i>Pro forma Group's share of joint venture/ associates operating profit/(loss) £m</i>	<i>Pro forma total operating profit/(loss) £m</i>
Future BT	17,342	5,763	2,814	(129)	2,685
BT Wireless	4,119	10	(3,852)	7	(3,845)
Yell	775	221	186	2	188
Eliminations and other	(831)	—	—	—	—
Pro forma BT	21,405	5,994	(852)	(120)	(972)

*EBITDA is quoted before exceptional items and excludes associates and joint ventures.

b) Analysis of pro forma consolidated balance sheet as at 31 March 2001

	<i>Future BT £m</i>	<i>Yell £m</i>	<i>BT Wireless £m</i>	<i>Pro forma BT £m</i>
Fixed assets				
Intangible assets	2,350	429	15,601	18,380
Tangible assets	17,848	43	3,734	21,625
Investments	5,134	2	68	5,204
Total fixed assets	25,332	474	19,403	45,209
Current assets				
Stocks	124	88	149	361
Debtors	5,010	304	946	6,260
Investments	2,557	—	—	2,557
Cash at bank and in hand	412	—	—	412
Total current assets	8,103	392	1,095	9,590
Creditors: amounts falling due within one year				
Loans and other borrowings	(6,261)	—	—	(6,261)
Other creditors	(7,007)	(154)	(1,436)	(8,597)
Total creditors: amounts falling due within one year	(13,268)	(154)	(1,436)	(14,858)
Net current assets/(liabilities)	(5,165)	238	(341)	(5,268)
Total assets less current liabilities	20,167	712	19,062	39,941
Creditors: amounts falling due after more than one year				
Loans and other borrowings	(18,775)	—	—	(18,775)
Provisions for liabilities and charges	(497)	—	(226)	(723)
Total net assets	895	712	18,836	20,443
Minority interests	499	—	—	499
Capital and reserves	396	712	18,836	19,944
	895	712	18,836	20,443

PART 5: PRO FORMA FINANCIAL INFORMATION FOR THE YEAR ENDED 31 MARCH 2001

The analysis of the pro forma BT consolidated profit and loss account for the year ended 31 March 2001 and the consolidated balance sheet as at 31 March 2001 has been prepared on the following basis:

(i) Yell

The analysis relating to Yell has been extracted using the consolidated return prepared for inclusion in the consolidated BT results for the year ended 31 March 2001 as referred to in note 1(a) above. For the purposes of this document, it has been assumed that no external or internal debt will be transferred to Yell upon any sale or demerger.

(ii) BT Wireless

The analysis above relating to BT Wireless has been extracted from the consolidated returns prepared for inclusion in the consolidated BT results for the year ended and as at 31 March 2001 as explained in note 1(a) to (d) above. For the purposes of this document, it has been assumed that no external or internal debt will be transferred to BT Wireless upon any demerger. The results of pro forma BT Wireless include the BT Wireless operations of Viag Interkom.

(iii) Eliminations and other

The adjustment reflects certain intra-group transactions eliminated upon consolidation of the existing BT group. These adjustments have been shown within the separate results of the pro forma BT, Yell and BT Wireless groups.



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

10 May 2001

Dear Sirs

British Telecommunications public limited company ("the Company")

We report on the pro forma financial information set out in Part 5 of the Company's prospectus dated 10 May 2001. The pro forma financial information has been prepared, for illustrative purposes only, to provide information about how the Rights Issue might have affected the consolidated balance sheet of the Company and its subsidiaries ("the Group") as at 31 March 2001 and the Rights Issue and the acquisition of Viag Interkom might have affected the profit and loss account of the Group for the year ended 31 March 2001.

Responsibilities

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

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

Basis of opinion

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

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

Opinion

In our opinion:

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

Yours faithfully

PricewaterhouseCoopers
Chartered Accountants

PART 6: INVESTMENT CONSIDERATIONS

An investment in BT Shares involves risks. BT Shareholders should carefully consider all of the information in this document and, in particular, the investment considerations described below before deciding to invest in new BT Shares.

The following describes some of the significant risks that could affect BT. Additionally, some risks may be unknown to BT and other risks, currently believed to be immaterial, could turn out to be material. All of these could materially adversely affect BT's business, turnover, profits, assets, liquidity and capital resources. The investment considerations described should also be considered in connection with the warning regarding the forward-looking statements on page 2 of this document. These investment considerations include investment considerations relating to the BT Wireless business which is proposed to be demerged.

Financing

Overview

To finance several significant investments and acquisitions over the last year and a half, BT has substantially increased its outstanding debt. In part because of this increase, BT's credit ratings were reduced during the second half of 2000. Any further reduction in BT's ratings would increase its cost of borrowings. Subsequent downgrades may hinder its ability to expand and develop its business and may affect its ability to raise short-term finance.

During the 2001 financial year BT's borrowings, less short-term investments and cash, have risen from £8.7 billion as at 31 March 2000 to £27.9 billion as at 31 March 2001, primarily as a consequence of BT's cash investments in 3G mobile licences and its acquisition of interests from its former partners in European joint ventures.

Credit rating downgrades

Due to this increase in borrowings, as well as decreased stability and predictability of revenue streams from its new business sectors such as mobile data services, the capital expenditure investment needed to enhance BT's competitive position in a fast changing technological environment and the increasingly competitive nature of the UK telecommunications market, BT's credit ratings on its long-term debt and senior debt ratings were downgraded in August and September of 2000. This downgrade in credit ratings caused an increase in BT's borrowing costs. Before goodwill amortisation the net interest charge was covered 2.6 times by total operating profit for the year ended 31 March 2001 down from 9.7 times in the year ended 31 March 2000. Furthermore, our net debt has increased during April 2001.

In February 2001, Standard and Poor's placed BT on "CreditWatch with negative implications" and in March 2001, Moody's Investors Service announced that it had placed certain of BT's debt ratings on review for a further possible downgrade. Approximately one-third of the Group's debt (i.e. the debt that was issued after the ratings downgrades in August and September 2000) is subject to covenants which would increase the interest rate if the Group was subject to further downgrades. In addition, further downgrades would increase the cost of future borrowings, and subsequent downgrades may hinder BT's ability to expand and develop its business and may affect its ability to raise short-term finance.

Debt reduction

BT has indicated that it intends to reduce its debt by at least £10 billion by 31 December 2001. Its ability to achieve this will largely depend on the success of the Rights Issue and its ability to effect the restructuring programme including certain disposals. In November 2000, BT announced details of restructuring plans to focus resources on specific geographical areas and optimise the positioning of the individual businesses within their respective markets. BT said it would focus on Western Europe and Japan and to seek separate listings for up to 25 per cent. of BT Wireless and Yell and that a separate listing of BT Ignite was possible to be reviewed by the end of 2001. In addition, BT described proposals to create a new holding company to enhance corporate flexibility, and provide scope for further subsidiary listings where advantageous to shareholders. BT also detailed plans to create a new network company, NetCo, which would be both structurally and managerially separate. Following this corporate reorganisation, and subject to the satisfactory outcome of necessary discussions with the Government and Oftel, the intention was to seek a separate listing for up to 25 per cent. of

NetCo. BT's aim was to reduce net debt of the Group by December 2001 by at least £10 billion using the cash proceeds from the sale of equity in these various IPOs, together with the proceeds of disposals of non-core businesses and assets.

The weakness of the IPO market, particularly for telecommunications companies, has caused BT to review whether the sale of equity in Yell and BT Wireless in an IPO still constitutes the best option to strengthen its capital base. In addition to the Rights Issue, BT plans to demerge BT Wireless (creating a new holding company at the same time). On demerger the capital structure of BT Wireless is planned to include up to £2 billion of net debt. The Group is reviewing its plans for Yell and is currently considering proposals to sell or demerge Yell. The Group continues with its programme of non-core disposals which to date has included agreements to sell its Japanese investments and its investment in Airtel which, when completed, should reduce Group net debt by £4.4 billion. Completion is conditional upon relevant regulatory and procedural approvals in Japan and Europe. The Group has also announced plans to realise the value of its UK property portfolio through a sale and lease back transaction as well as the sale of its London headquarters. The Board has also decided that there will not be a final dividend for the year ended 31 March 2001 and that there will be no interim dividend for the year ending 31 March 2002. As a result, the Board believes it is on track to meet its target to reduce group debt by at least £10 billion by 31 December 2001 using the cash from disposals already announced and the anticipated proceeds from the Rights Issue. However, BT cannot assure you that these disposals will occur as planned or that the Rights Issue will be fully taken up. The Rights Issue is not being underwritten and therefore the Company is not guaranteed any minimum proceeds from the Rights Issue. BT may not be able to achieve its intended debt reduction if its plans do not succeed on the proposed terms or take significantly longer to achieve than it anticipates. If BT does not achieve this reduction there is a likelihood that its credit ratings will be further downgraded.

Notwithstanding the Board's expectation that the Group should be able to meet its £10 billion debt reduction target, the Board anticipates that the ratings of the Company are likely to be downgraded because of the view taken of the prospects for the Group's fixed network business and for third generation services. The Board believes, however, that the Group will be able to maintain an investment grade rating. The Board cannot assure you that the successful implementation of the restructuring will have this result.

In the course of the coming year, the Board expects net debt to increase as a result of net cash outflows from the Company's planned capital expenditure and interest payments. However, the Company's debt reduction and cash generation focus continues and its target is now to reduce net debt to between £15 billion and £20 billion in Future BT by 31 March 2002. Proceeds from the restructuring plan will be used to reduced net debt.

Dividends

BT has, since shortly after its incorporation in 1984, annually paid interim dividends in February and final dividends in September. The interim dividend BT paid in February 2001 was 8.7 pence per BT Share, unchanged from the previous year. However, as part of BT's debt reduction and restructuring plans, the Board has decided that there will be no final dividend in respect of the year ended 31 March 2001 and that there will be no interim dividend for the year ending 31 March 2002. The total cost of the dividends for the full year ended 31 March 2000 was approximately £1.4 billion. The Board expects that Future BT will recommend a final dividend in respect of the year ending 31 March 2002.

Future dividends, if any, to be received by BT Shareholders will depend on the progress of the individual companies created by its restructuring programme. These companies will determine their own dividend policies in accordance with their respective capital structures, cash requirements and the markets in which they operate. As a result, BT can give no assurance to its shareholders as to the level of dividends, if any, to be paid after February 2002 by BT, or any of the new public companies created by its restructuring.

Restructuring

The Group is undertaking a substantial restructuring of its businesses to improve its position in a rapidly changing market place. Its plans for the implementation of the restructuring are incomplete in many respects, and the success of the restructuring will depend in part on factors that are beyond its control. As a result, BT cannot assure its shareholders that the goals of its restructuring plan will be fully achieved. The Group also cannot assure shareholders that completion of the restructuring plan will result in the success of its strategy.

As discussed above, BT is undergoing a major restructuring of its business from a centrally organised one to one based on several lines of business. Although the lines of business were mostly established by 1 July 2000 and BT Retail and BT Wholesale were split in October 2000, the detailed organisation continues to be developed and changed. In particular, BT has not yet determined the exact form of the new UK network company, NetCo, which is to take over the majority of BT Wholesale's activities and provide network services to telecoms operators and service providers. Delay in implementation of the restructuring may lead to the new managements not being able to concentrate on developing their businesses with certainty, or to pursue opportunities in their respective marketplaces and may lead to staff retention problems. As BT refines the plans for its restructuring, it may encounter significant obstacles that it has not yet anticipated and that prevent it from fully implementing the restructuring or fully achieving its strategic goals.

Certain aspects of BT's restructuring plans require prior consultation with its regulators, the Secretary of State for Trade and Industry and the Director General of Telecommunications who heads the Office of Telecommunications ("Ofcom"). BT expects to conduct extensive discussions with Ofcom regarding its restructuring plans. Depending on the outcome of these discussions, regulatory restrictions may impact its ability to complete the restructuring according to its existing plans.

BT cannot assure its shareholders that it will be successful in completing the restructuring as currently planned or that it will achieve all of its strategic goals. Failure in this regard could adversely affect its strategic and competitive position.

BT Wireless

The Group needs to obtain a number of consents, approvals or clearances before it can demerge BT Wireless. At this stage, it cannot be certain that it will obtain these on acceptable terms or within the proposed timetable.

For the BT Wireless demerger to proceed as planned, the Group needs first to obtain consents, approvals and/or clearances from:

- BT Shareholders;
- the High Court of Justice in England and Wales;
- the Department of Trade and Industry;
- the Inland Revenue; and
- certain regulators.

The Group expects to seek shareholder approval at an extraordinary general meeting to be held towards the end of the year. The current intention is that the demerger of BT Wireless will take place at the same time as the creation of a new holding company which would be undertaken through a court approved scheme of arrangement.

The Law Debenture Trust Corporation p.l.c., as trustee of certain of BT's notes and bonds, has confirmed, having taken independent legal and financial advice, that, subject to certain conditions being met, it will not take any steps in relation to the demerger of BT Wireless. The principal condition is the successful completion of the Rights Issue; other conditions include the information provided by BT to the trustee remaining accurate and no new and materially adverse factor emerging. Further certification will be required by the trustee prior to implementation of the demerger. There can be no guarantee that this certification will be obtained.

The Group can give no assurance that the Rights Issue will be deemed successful by the trustee or that it will be able to obtain the necessary consents, approvals or clearances and consequently that it will be able to implement the demerger of BT Wireless.

The Group has asked the Department of Trade and Industry to confirm the Group's expectation that its main telecommunications licence, the BT Cellnet licence, and its 3G licence will remain in effect after the demerger. There are also a number of non-UK licences, including those for Viag Interkom and Esat Digifone for which consent or notification will be required. The Group will require certain clearances from the UK Inland Revenue to confirm the tax treatment of the companies involved in the demerger and for BT Shareholders on demerger.

Competition – BT Wireless

There is intense competition in all of the markets in which BT Wireless operates. BT Wireless is competing with leading global wireless operators as well as virtual network operators, traditional fixed line providers, resellers of wireless services and cable operators. In many countries new competitors may also enter into their markets as additional bands of spectrum and licences for wireless communications may be auctioned or otherwise offered or sold by the governmental authorities.

The Board expects that recent market trends in the telecommunications industry, such as accelerating technological convergence, will also intensify competition in all existing markets, both from existing competitors and new entrants. Continuing competition has and may lead to:

- price erosion on products and services;
- reduction in market share;
- loss of existing or prospective customers and increased difficulty in retaining customers;
- increases in handset subsidies;
- faster network expansion and upgrading; and
- more rapid development of wireless technologies.

BT Wireless's competitive position will depend also on the efficiency and success of marketing and branding initiatives and its ability to anticipate and respond to various competitive factors affecting it, its competitors and its industry. Such competitive factors include, amongst other things, new services and products, network coverage, pricing of wireless services and handsets, the quality of customer service and changes in consumer preferences.

Any failure by BT Wireless to compete effectively or successful competitive behaviour by its competitors would have a material adverse effect on the Group's operating results and prospects for so long as BT Wireless remains within the Group.

Viag Interkom

BT has invested approximately £12 billion, mainly in the 2001 financial year, in Viag Interkom, its newly acquired subsidiary business in Germany against which a goodwill impairment charge of £3 billion was made in the year to 31 March 2001. Viag Interkom, a startup established in 1997, has incurred losses in each of its completed financial years. Viag Interkom has an estimated seven per cent. share in the highly competitive German mobile phone market as at 31 March 2000. Under a licence it acquired in 2000, Viag Interkom is required to develop a 3G mobile network in Germany. Although the development of a 3G mobile network will require substantial capital expenditure by Viag Interkom, BT cannot be certain that the demand for 3G mobile products and services will justify the related costs or that Viag Interkom will develop a competitive 3G network. BT has not managed a similar sized operation outside the United Kingdom in recent years. BT can give its shareholders no assurance that Viag Interkom will cease incurring losses in the foreseeable future, nor that it will be able to make an economic return from its investment in the company.

Third generation mobile licences and networks

BT has invested approximately £10 billion in 3G licences in the 2001 financial year, principally in Germany and the United Kingdom. These licences are for the use of particular parts of the radio spectrum for 20 year periods and are required to enable BT to provide advanced mobile data services to its customers. BT has given undertakings to build a mobile network infrastructure to give a certain level of geographic coverage in Germany, the United Kingdom and The Netherlands. BT expects that this will require a further investment of up to £10 billion over a five year period. Completion of this investment may be hindered by more stringent planning controls over the siting of masts, particularly in rural areas. In addition, BT expects BT Wireless to apply for a 3G licence in the Republic of Ireland which will entail further licence and roll out costs.

The technology for the new services is not yet fully developed by the suppliers of the handsets and other equipment to be used by BT and its competitors in providing the services. Developing 3G technology may take longer than BT anticipates

and prove not to be superior to the existing technologies. The size of the market for these services is as yet unknown and may fall short of the industry's expectations. BT cannot be certain that the demand for such services will justify the related costs. In some locations, the investment, although required under the licences, may not be commercially desirable. In addition, BT has a number of significant competitors in each geographic market.

BT expects to roll out its 3G network at the same time that many of its competitors roll out their own 3G networks throughout Europe. This, combined with the limited number of suppliers of 3G network equipment is likely to create high demand for, and may extend the delivery times of, such equipment, which may cause delays in the construction of BT's 3G networks.

The potential level of competition, together with these uncertainties, means that BT cannot give its shareholders any assurance that BT will make an economic return from its investments in 3G licences or networks. In the event that BT fails to generate significant revenue from its planned 3G mobile service offerings, it may not be able to meet financial obligations incurred in relation to the 3G network or otherwise and its business, financial condition and results of operations may suffer.

Competition in the UK fixed network services

BT continues to have a significant market share in some aspects of the UK fixed network services. In particular, approximately 82 per cent. of exchange lines in the United Kingdom were in the BT network as at 31 March 2001. Regulators are promoting competition in this area by allowing other operators to site equipment in or adjacent to its exchanges (local loop unbundling) and to make it easier for BT's customers to route some or all of their calls over competitors' networks (carrier pre-selection). Reduction in BT's market share in the fixed network may lead to a fall in the Group's turnover and an adverse effect on profitability. Unlike other operators, BT continues to be obliged by the current regulatory regime to serve customers in the United Kingdom, whether or not such provision of service is economic, and the two competitive measures described above may have the effect of accelerating the diversion of its more profitable existing customers without it being able to reduce its costs commensurately. These changes in the regulatory environment and ensuing increased competition on its fixed network may cause adverse effects on its business, results of operations, financial condition and prospects.

Regulatory

Most of BT's fixed network activities in the United Kingdom are subject to significant regulatory controls. The controls regulate, among other things, the prices BT may charge for its services and the extent to which it has to provide services to its competitors. In recent years, the effect of these controls has been to cause BT to reduce its prices. In addition, the regulators are considering bringing BT's UK wireless operations under wider price control which may have the effect of further reducing the prices it can charge for mobile services. BT cannot assure its shareholders that the regulatory authorities will not increase the severity of the price controls, or extend the services to which controls apply, or extend the services which it has to provide its competitors. These controls may adversely affect BT's market share, the severity of competition and its future profitability.

Technological changes

BT operates in an industry with a recent history of fast technological changes. It expects that new products and technologies will emerge and that existing products and technologies will develop further. BT cannot predict the actual effect of these technological changes on its business or on its ability to provide competitive services. For example, presently there is evidence of some substitution by customers to using mobile phones for day-to-day voice calls in place of making such calls over the fixed network. Additionally, some calls are now being routed over the internet in place of the traditional switched network. If these trends accelerate, BT's fixed network assets may be used uneconomically and its investment in these assets may not be recovered through profits on fixed network calls and line rentals. Impairment write-downs may be incurred and margins may decline if fixed costs cannot be reduced in line with falling turnover.

Health concerns from mobile phone handsets and masts

There has been speculation that mobile phone handsets give off harmful radiation to their users and that transmitter masts emit such radiation, adversely affecting the health of people in their vicinity. Although research has failed to provide evidence of any links between such radiation and long-term harmful effects on people's health, the government has issued a guideline, suggesting that people below the age of 18 should limit the time spent using mobile phones and some schools have not allowed masts to be sited on their premises.

Increased speculation regarding health risks or any subsequent substantiation of such risks may result in an adverse effect on customer demand, may affect the future sitings of masts and/or may lead to legal compensation claims or other liabilities.

The sale or demerger of Yell may be subject to delay

The Yell business is subject to undertakings given to the Secretary of State for Trade and Industry under the terms of the Fair Trading Act 1973. These undertakings regulate, among other things, the prices which Yell may charge for classified advertisements. The Director General of Fair Trading has a duty under the Fair Trading Act 1973 to keep under review the operation and on-going effectiveness of the undertakings. In May 2000, the Director General of Fair Trading decided to conduct a review of the current undertakings. The Secretary of State for Trade and Industry is presently considering the report prepared by the Director General of Fair Trading on these undertakings. Pending a ruling from the Secretary of State for Trade and Industry on the report prepared by the Office of Fair Trading, BT is unable to determine whether a sale or demerger of Yell is the most appropriate route to follow.

PART 7: ADDITIONAL INFORMATION

1. Responsibility

The Directors, whose names appear on page 8 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Incorporation and activities

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

3. Share Capital

- (a) The new BT Shares which are the subject of the Rights Issue were provisionally allotted by a resolution of a duly authorised committee of the Board dated 9 May 2001.
- (b) Pursuant to resolutions passed at the Company's annual general meeting held on 12 July 2000:
 - (i) the Directors are authorised, generally and without conditions, in accordance with section 80 of the Companies Act to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £536,000,000, such authority to expire on 11 October 2001; and
 - (ii) the Directors are authorised to allot equity securities (as defined in section 94(2) of the Companies Act) for cash as if section 89(1) of the Companies Act did not apply to any allotment of equity securities up to an aggregate nominal amount of £81,000,000, such power to expire on 11 October 2001.
- (c) The authorised and issued share capital of BT (i) on 9 May 2001, the latest practicable date prior to the publication of this document, and (ii) immediately following the Rights Issue and assuming that 1,975,580,052 new BT Shares are issued pursuant to the Rights Issue is as follows:

<i>Authorised</i>			<i>Issued</i>	
	<i>Number</i>	<i>Amount</i>	<i>Number</i>	<i>Amount</i>
(i)	10,500,000,004	£2,625,000,001	BT Shares	6,585,266,841 £1,646,316,710
(ii)	10,500,000,004	£2,625,000,001	BT Shares	8,560,846,893 £2,140,211,723

- (d) Full take-up of entitlement under the Rights Issue would result in the issue of 1,975,580,052 new BT Shares, leading to an increase of the issued share capital of £493.9 million.
- (e) The new BT Shares will, when issued, be in registered form and will be capable of being held in certificated and uncertificated form.
- (f) None of the new BT Shares have been marketed or are available in whole or in part to the public otherwise than pursuant to the Rights Issue.
- (g) The provisions of section 89 of the Companies Act (which confers on shareholders rights of pre-emption in respect of the allotment of equity securities which are to be paid up in cash) apply to the authorised but unissued ordinary share capital of BT. Except as to fractions of BT Shares resulting from the Rights Issue, the Rights Issue will be effected in accordance with the pre-emption provisions of section 89 of the Companies Act. Fractions of BT Shares resulting from the Rights Issue will be sold on the open market for the benefit of the Company and under the authority referred to in paragraph 3(b)(ii) of this Part 7.

PART 7: ADDITIONAL INFORMATION

- (vii) The closing mid market quotations for a BT Share as derived from the Daily Official List for the first dealing day in each of the six months prior to the date of this document and for the last dealing day before the announcement of the Rights Issue were as follows:

<i>Date</i>	<i>Share price</i>
1 December 2000	619.5p
2 January 2001	572.0p
1 February 2001	686.0p
1 March 2001	535.0p
2 April 2001	500.0p
1 May 2001	599.0p
9 May 2001	568.5p

- (viii) As at 9 May 2001 (the last practicable date prior to the publication of this document), the following options to subscribe for BT Shares (all of which have been granted for no consideration) have been granted to Directors and employees under the following BT Option Schemes:

<i>Scheme</i>	<i>Number of ordinary shares under option (millions)</i>	<i>Option price per share</i>	<i>Grant date</i>	<i>Normal exercise date (for six months) from</i>
BT Employee Sharesave Scheme 1994	62	267p	21 June 1996	14 August 2001
	4	583p	25 June 1998	14 August 2001
	48	359p	20 June 1997	14 August 2002
	4	949p	24 June 1999	14 August 2002
	38	518p	25 June 1998	14 August 2003
	36	818p	23 June 2000	14 August 2003
	29	844p	24 June 1999	14 August 2004
	36	727p	23 June 2000	14 August 2005
Total	257			

	<i>Outstanding grants</i>	<i>Option price per share</i>	<i>Grant date</i>	<i>Normal exercise date (for six months) from</i>
BT International Employee Sharesave Scheme	112,489	518p	25 June 1998	24 June 2001
	15,745	537p	25 June 1998	24 June 2001
	12,750	668p	17 December 1998	16 December 2001
	107,710	844p	24 June 1999	23 June 2002
	53,631	863p	24 June 1999	23 June 2002
	328,122	727p	23 June 2000	22 June 2003
	36,002	775p	23 June 2000	22 June 2003
	175,782	534p	14 December 2000	13 December 2003
Total	842,231			

BT Share Option Scheme	<i>Outstanding grants</i>	<i>Option price per share</i>	<i>Grant date</i>	<i>Exercisable for seven years from:</i>
	466,288	333p	9 March 1992	8 March 1995
	557,515	430p	4 Mar 1993	3 March 1996
	30,180	460p	15 November 1993	14 November 1996
	74,923	370p	24 June 1994	23 June 1997
	694,570	375p	8 December 1994	7 December 1997

Total	<u>1,823,476</u>
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BT Worldwide Share Option Scheme	<i>Number of ordinary shares under option</i>	<i>Option price per share</i>	<i>Grant date</i>	<i>Exercisable for seven years from:</i>
	75,000	333p	9 March 1992	8 March 1995
	36,720	340p	23 June 1992	22 June 1995
	11,430	430p	4 March 1993	3 March 1996
	15,470	375p	8 December 1994	7 December 1997
	58,420	772p	8 September 1998	7 September 2001
	15,700	892p	23 December 1998	22 December 2001
	7,850	1053p	16 February 1999	15 February 2002
	22,760	982p	24 March 1999	23 March 2002
	302,700	953p	9 August 1999	8 August 2002
	82,280	982p	8 September 1999	7 September 2002
	4,820	1069p	11 February 2000	10 February 2003

Total	<u>633,150</u>
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BT US Stock Option Plan	<i>Outstanding grants</i>	<i>Option price per share</i>	<i>Grant date</i>	<i>Exercisable for seven years from:</i>
	67,960	332p	9 March 1992	8 March 1995
	7,910	430p	4 March 1993	3 March 1996
	60,820	379p	8 December 1994	7 December 1997
	51,110	454p	24 November 1997	23 November 2000
	19,470	596p	19 February 1998	18 February 2001
	750,180	\$12.91	8 September 1998	7 September 2001
	229,150	\$16.82	16 February 1999	15 February 2002
	928,500	\$15.70	9 August 1999	8 August 2002
	255,660	\$15.60	8 September 1999	8 September 2002
	22,760	\$17.57	11 February 2000	10 February 2003

Total	<u>2,393,520</u>
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BT Global Share Option Plan	<i>Outstanding grants</i>	<i>Option price per share</i>	<i>Grant date</i>	<i>Exercisable from:</i>
	5,523,640	885p	2 August 2000	2 August 2001 – $\frac{1}{3}$ 2 August 2002 – $\frac{2}{3}$ 2 August 2003 – 1 August 2010 – all
	246,840	\$10.68	1 October 2000	1 October 2001 – $\frac{1}{3}$ 1 October 2002 – $\frac{2}{3}$ 1 October 2003 – 30 September 2010 – all
	884,330	690p	14 November 2000	14 November 2001 – $\frac{1}{3}$ 14 November 2002 – $\frac{2}{3}$ 14 November 2003 – 13 November 2010 – all
	1,083,710	535p	14 March 2001	14 March 2002 – $\frac{1}{3}$ 14 March 2003 – $\frac{2}{3}$ 14 March 2004 – 13 March 2011 – all
Total	<u>7,738,520</u>			

Save as disclosed above, no share or loan capital of the Company or any of its subsidiaries is under option or is agreed, conditionally or unconditionally, to be put under option.

4. BT Schemes

In the case of the BT Option Schemes, the Board proposes to adjust the number of BT Shares in respect of which options may be exercised and the price at which those BT Shares may be acquired to take account of the Rights Issue. The Board proposes to make similar adjustments to the number and price of BT ADS's available under the BT Employee Stock Purchase Plan. The adjustments will, where necessary, be subject to written confirmation from the auditors of the Company that the adjustments are, in their opinion, fair and reasonable and, in respect of UK tax approved plans, will also be subject to the prior approval of the Inland Revenue and to any other relevant tax requirements.

Participants under the BT Employee Share Ownership Scheme (in which BT Shares to which they are beneficially entitled are held on their behalf) will be able to participate in the Rights Issue in respect of these BT Shares (either by taking up their rights in full, by selling their rights or by selling sufficient rights nil paid to enable the balance of their rights to be taken up with the proceeds of sale) so that the new BT Shares can be allocated to, and be released on the same basis as, the awards to which they relate.

In the case of contingent awards over BT Shares made to senior employees under certain BT Schemes where the BT Shares are held in trust, the Board proposes to recommend to the trustee of each relevant trust that sufficient rights are sold nil paid to enable the balance of the rights to be taken up with the proceeds of sale, so that the new BT Shares acquired can be allocated to the relevant awards and be released on the same basis as the awards to which they relate. Beneficial owners of BT Shares held under the BT Executive Share Plan will be entitled to participate in the Rights Issue in respect of these BT Shares (either by taking up their rights in full, by selling sufficient rights nil paid to take up the balance of their rights or selling all their rights nil paid and reinvesting the proceeds of sale in BT Shares) so that the new BT Shares acquired are then released on the same basis as the holding of BT Shares to which they relate.

5. Memorandum and Articles of Association

The memorandum of association of BT provides that its principal objects are, among other things, to carry on any business of running, operating, managing and supplying telecommunication systems and systems of any kind for conveying,

receiving, storing, processing or transmitting sounds, visual images, signals, messages and communications of any kind. The objects of BT are set out in full in clause 4 of the Company's memorandum of association, which is available for inspection at the addresses specified in paragraph 20 of this Part 7.

The following is a summary of the rights under the BT Articles relating to voting, dividends and transfers which attach to the BT Shares with which the new BT Shares under the Rights Issue will rank *pari passu* in all respects when unconditionally allotted and fully paid.

In the following description of the rights attaching to the BT Shares, a "holder of shares" and a "shareholder" is, in either case, the person registered in the Company's register of members as the holder of the relevant shares. Shareholders can choose whether their shares are to be evidenced by share certificates (i.e. in certificated form) or held in electronic (i.e. uncertificated) form in CREST.

(a) Voting Rights

Subject to the restrictions described below, on a show of hands every holder of BT 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 each share which they hold.

Voting at any meeting of shareholders is by a show of hands unless a poll is demanded by the chairman of the meeting or by at least five shareholders at the meeting who are entitled to vote (or their proxies), or by one or more shareholders at the meeting who are entitled to vote (or their proxies) and who have, between them, at least 10 per cent. of the total votes of all shareholders who have the right to vote at the meeting.

A shareholder whose registered address is outside the UK and who wishes to receive notices of meetings of shareholders must give the Company an address within the UK to which they may be sent.

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 if he or any person appearing to be interested in those shares has been sent a notice under section 212 of the Companies Act (which confers upon public companies the power to require information with respect to interests in their voting shares) and he or any such interested person has failed to supply to the Company the information requested within 14 days after delivery of that notice. These restrictions end (unless the board decides otherwise):

- (i) seven days after the earlier of the date the shareholder complies with the request satisfactorily or the Company receives notice that there has been an approved transfer of the shares; or
- (ii) when the circumstances described under "Limitation on size of shareholdings" below apply.

(b) Limitation on size of shareholdings

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

If the board knows that a person has an interest in the Company's shares which carry 15 per cent. or more of the total votes attaching to relevant share capital (as that expression is defined in the Act), the board must send a written notice to all persons (other than certain persons referred to below) who appear to it to have such interests and, if different, to the registered holder(s) of the shares concerned. That notice will set out the restrictions referred to below and will call for the interest concerned to be reduced to less than 15 per cent. by sale or other disposal of shares within 21 days of the giving of the notice to the registered holder(s) (or such longer period as the board considers reasonable). No transfer of the shares comprised in the interest may be made except for the purpose of reducing the interest to less than 15 per cent. or if the notice sent by the board is withdrawn.

If that notice is not complied with to the satisfaction of the board and has not been withdrawn, the board has the authority to and must effect the disposal on the terms it decides, 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 that 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 a class of shares and those rights will vest in the chairman of the meeting who may act entirely at his discretion.

The board is not required to send notice to 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 to whom notice is required to be sent will not prevent the implementation of or invalidate any procedure under the relevant Article in BT's Articles. Any resolution or determination of, or decision or exercise of any discretion or power by, the board is conclusive.

Certain specified shareholders, including the ADR Depositary and The Depositary Trust Company, are not subject to these restrictions.

(c) Variation of rights

Whenever the share capital of the Company is split into different classes of shares, the special rights attached to any of those classes can be varied or withdrawn either:

- (i) with the sanction of any extraordinary resolution passed at a separate meeting of the holders of the shares of that class; or
- (ii) with the consent in writing of the holders of at least 75 per cent. in nominal value of the issued shares of that class.

At any separate meeting, the necessary quorum is two persons holding or representing by proxy not less than one-third in nominal amount of the issued shares of the class in question (but at any adjourned meeting, any person holding shares of the class or his proxy is a quorum).

BT can issue new shares and attach any rights and restrictions to them, as long as this is not restricted by special rights previously given to holders of any existing shares. Subject to this, the rights of new shares can take priority over the rights of existing shares, or existing shares can take priority over them, or the new shares and the existing shares can rank equally.

(d) Changes in capital

The Company may by ordinary resolution:

- (i) consolidate and divide all or any of its share capital into shares of a larger amount;
- (ii) divide all or part of its share capital into shares of a smaller amount;
- (iii) cancel any shares which have not, at the date of the ordinary resolution, been taken or agreed to be taken by any person and reduce the amount of its share capital by the amount of the shares cancelled; and
- (iv) increase its share capital.

The Company may also:

- (i) buy back its own shares; and
- (ii) by special resolution reduce its share capital, any capital redemption reserve and any share premium account.

(e) Dividends

The Company's shareholders can declare dividends by passing an ordinary resolution provided that no dividend can exceed the amount recommended by the directors. Dividends must be paid out of profits available for distribution. If the directors consider that the profits of the Company justify such payments, they can pay interim dividends on any class of shares of the amounts on the dates and for the periods they decide. Fixed dividends will be paid on any class of share on the dates stated for the payments of those dividends.

The directors can offer ordinary shareholders the right to choose to receive new ordinary shares, which are credited as fully paid, instead of some or all of their cash dividend. Before they can do this, the Company's shareholders must have passed an ordinary resolution authorising the directors to make this offer.

Any dividend which has not been claimed for 12 years after it was declared or became due for payment will be forfeited and will belong to the Company unless the directors decide otherwise.

(f) Distribution of assets on winding up

If the Company is wound up (whether the liquidation is voluntary, under supervision of a court or by a court) the liquidator can, with the authority of an extraordinary resolution passed by the shareholders, divide among the shareholders all or any part of the assets of the Company. This applies whether the assets consist of property of one kind or different kinds. For this purpose, the liquidator can place whatever value the liquidator considers fair on any property and decide how the division is carried out between shareholders or different groups of shareholders. The liquidator can also, with the same authority, transfer any assets to trustees upon any trusts for the benefit of shareholders which the liquidator decides. The liquidation of the Company can then be finalised and the Company dissolved. No past or present shareholder can be compelled to accept any shares or other property under the BT Articles which could give them a liability.

(g) Transfer of shares

Certificated shares of the Company may be transferred in writing either by an instrument of transfer in the usual standard form or in such other form approved by the board. The transfer form must be signed or made effective by or on behalf of the person making the transfer. The person making the transfer will be treated as continuing to be the holder of the shares transferred until the name of the person to whom the shares are being transferred is entered in the register of members of the Company.

The board may refuse to register any transfer of any share held in certificated form:

- which is in favour of more than four joint holders; or
- unless the transfer form to be registered is properly stamped to show payment of any applicable stamp duty and delivered to the Company's registered office or any other place the board decides. The transfer must have with it the share certificate for the shares to be transferred; any other evidence which the board asks for to prove that the person wanting to make the transfer is entitled to do this; and if the transfer form is executed by another person on behalf of the person making the transfer, evidence of the authority of that person to do so.

Transfers of uncertificated shares must be carried out using a relevant system (as defined in the Regulations). The board can refuse to register a transfer of an uncertificated share in the circumstances stated in the Regulations.

If the board decides not to register a transfer of a share, it must notify the person to whom that share was to be transferred no later than two months after the Company receives the transfer form or instruction from the operator of the relevant system.

(h) Directors' votes

Unless the Articles say otherwise, a director cannot vote on a resolution about a contract in which the director has a material interest (this will also apply to interests of a person connected with the director). The director can vote if the interest is only an interest in BT Shares, debentures or other securities. A director can, however, vote and be counted in a quorum in respect of certain matters in which he is interested as set out in the BT Articles.

Subject to the relevant legislation, the shareholders can by passing an ordinary resolution suspend or relax, among other things, the provisions relating to the declaration of the interest of a director in any contract or arrangement or relating to a director's right to vote and be counted in a quorum on resolutions in which he is interested to any extent or ratify any particular contract or arrangement carried out in breach of those provisions.

(i) Directors' remuneration

Excluding remuneration referred to below, each director shall be paid such fees for his services as the board decides, not exceeding £50,000 a year and increasing by the percentage increase of the retail prices index (as defined by Section 833(2)

Income and Corporation Taxes Act 1988) for any 12 month period beginning 1 April 1999 or an anniversary of that date. The Company may by ordinary resolution decide on a higher sum. This resolution can increase the fee paid to all or any directors either permanently or for a particular period. The directors may be paid their expenses properly incurred in connection with the business of the Company.

The board can award extra remuneration to a director who holds an executive position; acts as chairman or deputy chairman; serves on a board committee at the request of the board; or performs any other services which the board consider extends beyond the ordinary duties of a director.

The directors may grant pensions or other benefits to, among others, any director or former director or persons connected with them. However, BT can only provide such benefits to any director or former director who has not been an employee or held any other office or executive position in the Company or any of its subsidiary undertakings or to relations or dependants of, or people connected to, those directors or former directors, if the shareholders approve this by passing an ordinary resolution.

(j) Retirement of directors

Provisions of the legislation which, read with the BT Articles, would restrict the appointment of a director or require him to stop being a director because he has reached a particular age do not apply to the Company.

At every annual general meeting one third of the directors (or if their number is not a multiple of three, the number nearest to but greater than one third) must retire by rotation as directors. The directors to retire are selected on the basis of time in office since their last election. Any director appointed by the directors automatically retires at the next following annual general meeting, and is then eligible for election, but is not taken into account in determining which and how many directors are to retire by rotation at such meeting. A retiring director is eligible for re-election.

(k) Directors' borrowing powers

To the extent that the legislation and the BT Articles allow, the board may exercise all the powers of the Company to borrow money, to mortgage or charge its business, property and assets, (present and future) and to issue debentures and other securities, and give security either outright or as collateral security for any debt, liability or obligation of the Company or another person. The board must limit the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings so as to ensure that the aggregate amount of all borrowings by the Group outstanding at any time is not more than three times the Adjusted Capital and Reserves (as defined in the BT Articles). This affects subsidiary undertakings only to the extent that the board can do this by exercising these rights or powers of control. This limit can be exceeded if the consent of the shareholders has been given in advance by passing an ordinary resolution.

6. Directors of BT

(a) The Directors of BT and their functions in the Group are as follows:

Chairman

Sir Francis Christopher Buchan Bland, Chairman *(d)*

Sir Christopher Bland joined the Board and became Chairman on 1 May 2001. He chairs the Nominating Committee. He has been chairman of the BBC since 1996 and will continue in that role until the end of September or, if earlier, a successor is found. From 1994 to 2000, Sir Christopher was chairman of NFC plc, having previously been chairman of LWT Holdings plc. From 1977 to 1985 he was chairman of Sir Joseph Causton & Sons plc. Aged 62.

Executive Directors

Sir Peter Leahy Bonfield CBE, Chief Executive *(a)*

Sir Peter Bonfield was appointed to the Board on 1 January 1996 as Chief Executive. He chairs the Group Executive Committee. Sir Peter is a fellow of the Royal Academy of Engineering and the Institution of Electrical Engineers. From 1981 to 1995, he worked for ICL, latterly as chairman and chief executive. He is a non-executive director of AstraZeneca Group, a member of the international advisory board of Salomon Smith Barney and vice president of the British Quality Foundation. Aged 56.

Philip Roy Hampton, Group Finance Director (a) (e)

Philip Hampton was appointed to the Board on 1 November 2000 as Group Finance Director. He is an Associate of the Institute of Chartered Accountants. From July 1996, he was a board member of BG Group (formerly BG plc) with responsibility for finance, having previously been executive director for finance at British Steel. From 1975 to 1980, Philip Hampton worked for Coopers & Lybrand (now PricewaterhouseCoopers) and between 1981 and 1990 he worked for Lazards. In 1986, he was seconded to Lazard Frères, New York and, in 1987, was appointed an executive director of Lazard Brothers. Aged 47.

Non-Executive Directors

Lord Marshall of Knightsbridge, Joint Deputy Chairman (b) (c) (d)

Lord Marshall was appointed to the Board in 1995 and was Deputy Chairman between 1996 and 2000. On 1 January 2001, he became Joint Deputy Chairman. He chairs the Remuneration Committee. Lord Marshall is chairman of British Airways and Invensys, and a non-executive director of HSBC Holdings. Lord Marshall will retire from the Board at the end of the 2001 annual general meeting. Aged 67.

Sir Anthony Armitage Greener, Joint Deputy Chairman (b) (c) (d)

Sir Anthony Greener was appointed to the Board on 1 October 2000. He became Joint Deputy Chairman and chairman of the Audit Committee on 1 January 2001. Sir Anthony is chairman of University for Industry and was formerly chairman of Diageo. Prior to the merger of Guinness and Grand Metropolitan he was chairman and chief executive of Guinness having been chief executive of Guinness since 1992. Sir Anthony is due to become Deputy Chairman from the date of the 2001 annual general meeting. Aged 60.

Helen Alexander (b) (d)

Helen Alexander joined the Board on 1 June 1998. She has been chief executive of The Economist Group since January 1997. Helen Alexander joined The Economist in 1984 and was managing director of The Economist Intelligence Unit from 1993 to the end of 1996. She is also a non-executive director of Northern Foods and a member of the ethics committee of the University College London Hospitals. Aged 44.

Dr James Iain Walker Anderson (b) (c) (d) (e)

Dr Anderson was appointed to the Board in 1995. He is chairman of the BT Scotland Board and chairs the Pensions Committee. Dr Anderson joined the Board of Unilever in 1988 and was the strategy and technology director of Unilever until he retired in May 1998. He is chairman of Intense Photonics, a non-executive director of Scottish & Newcastle, a director of the Scottish Science Trust and was special adviser to the Prime Minister on millennium compliance. Aged 62.

Maarten Albert van den Bergh (b) (c) (e)

Maarten van den Bergh was appointed to the Board on 1 September 2000. He is chairman of LloydsTSB Group plc and a non-executive director of the Shell Petroleum Company. Prior to his retirement in February 2000 he was president of the Royal Dutch Petroleum Company and vice chairman of the committee of managing directors from July 1998, having been appointed a managing director of the Royal Dutch Shell Group of companies in July 1992. He is a Dutch national. Aged 59.

Louis Ralph Hughes (b)

Louis Hughes joined the Board on 1 January 2000. He was president and chief operating officer of Lockheed Martin Corporation and from 1992 to 2000, executive vice president of General Motors. He is a non-executive director of AB Electrolux (Sweden), Sulzer AG (Switzerland) and Maxager Technology Inc. (USA). From 1993 to 2000 he was a member of the supervisory board of Deutsche Bank. He is a US national. Aged 52.

Edward Neville Isdell (b) (c) (d)

Neville Isdell joined the Board on 1 July 1998. He is chairman and chief executive of Coca-Cola HBC. Neville Isdell joined Coca-Cola in 1968 and has held a number of posts managing Coca-Cola's businesses in various parts of the world. He has served on the boards of the publicly-quoted Coca-Cola Enterprises US and Coca-Cola Amatil Australia. He is an Irish national. Aged 57.

June Frances de Moller (c) (e)

June de Moller was appointed to the Board on 1 September 1999. Appointed a director of Carlton Communications in 1983, she became Carlton's managing director in 1993, stepping down from that position in January 1999. June de Moller is also a non-executive director of Cookson Group, Lynx Group and J. Sainsbury. Aged 53.

Sir Philip John Weston (b) (e) (f)

Sir John Weston joined the Board on 1 October 1998. He retired as Britain's Ambassador to the United Nations in New York in July 1998. Sir John was formerly British Ambassador to NATO. He is also a non-executive director of Hakluyt & Co and Rolls-Royce and honorary president of the UK-wide Community Foundation Network. Aged 63.

Company Secretary

Colin Raymond Green (a)

Colin Green, a solicitor, was appointed Secretary and Chief Legal Adviser in 1994. On 1 April 1999, he became Group Commercial Director and Secretary. Before joining BT, he was partner in a private practice. Aged 52.

Key to membership of principal Board committees:

- (a) *Group Executive*
- (b) *Audit*
- (c) *Remuneration*
- (d) *Nominating*
- (e) *Pensions*
- (f) *Community Support*

All of the non-executive Directors are considered independent of the management of the Company for the purposes of the Principles of Good Governance and Code of Best Practice, known as the Combined Code, which is appended to the Listing Rules.

(b) The details of those companies and partnerships outside the Group of which the Directors have been directors or partners at any time during the five years prior to the date of this document are as follows:

<i>Name of Director</i>	<i>Current directorships and partnerships</i>	<i>Previous directorships and partnerships</i>
Sir Christopher Bland	British Broadcasting Corporation Leiths School of Food and Wine Limited Playford Productions Limited foodndrink.co.uk Limited	Exel Investment Limited Exel Trustees Limited The Exel Foundation Helmet Securities Limited Life Sciences International Limited NFC plc Royal Postgraduate Trust Limited (Dissolved 18 May 1999) The Private Finance Panel Limited Thermo Shandon Limited
Sir Peter Bonfield CBE	AstraZeneca Group plc British Quality Foundation	BICC PLC DESC Limited ICL Computer Limited ICL Global Investments Limited International Computers Limited MCI Communications Corporation (Non UK) ICL PLC

<i>Name of Director</i>	<i>Current directorships and partnerships</i>	<i>Previous directorships and partnerships</i>
Philip Hampton	None	Ashorne Hill Management College BG Group plc BG Transco Holdings plc BG Transco plc BG Insurance Company Limited BG Energy Holdings Limited Bonstone Limited British Steel Engineering Steels Holdings Limited British Steel PLC Seabank Power Limited
Lord Marshall of Knightsbridge	British Airways plc HSBC Holdings plc Invensys plc The Conference Board Inc.	British Airways Associated Companies Limited British Caledonian Group plc Confederation of British Industry Green Globe Inchcape plc MCI Communications Corporation New York Stock Exchange Qantas Airways Limited RAC Holdings Limited The Marketing Council
Sir Anthony Greener	Ufi Charitable Trust Ufi Limited Robert Mondavi Corporation	Diageo plc Grand Metropolitan plc Guinness Limited Reed Elsevier Plc Reed International plc The Marketing Council United Distillers & Vintners (ER) Limited
Helen Alexander	Northern Foods plc Redhouse Press Limited Ryder Street Properties Limited Ryder Street Properties (Management) Limited The Economist Books Limited The Economist Group (Asia-Pacific) Limited The Economist Group Limited The Economist Group Trustee Company Limited The Economist Intelligence Unit Limited The Economist Newspaper Limited The Economist Overseas (Holdings) Limited The Economist Publications Limited Writers & Scholars International Limited	The Economist Editorial (Overseas) Company Limited

PART 7: ADDITIONAL INFORMATION

<i>Name of Director</i>	<i>Current directorships and partnerships</i>	<i>Previous directorships and partnerships</i>
Dr Iain Anderson	Intense Photonics Limited Scottish & Newcastle PLC Scottish Science Trust Schools Enterprise Scotland Ltd	Unilever PLC
Maarten van den Bergh	Lloyds TSB Group plc Lloyds TSB Bank plc Royal Dutch Petroleum Company Shell Petroleum Company Limited Shell Petroleum NV	Anglo Coal Marketing Limited Anglo Coal Holdings Limited Shell Chemicals Limited Shell Coal Holdings Limited Shell Coal Marketing Limited Shell International Gas Limited Shell International Limited Shell International Petroleum Company Limited Shell Pensions Management Services Limited Shell Pensions Trust Limited Shell Upstream Investments plc The Shell Centenary Scholarship Fund
Louis Hughes	AB Electrolux Maxager Technology Inc. Sulzer AG	Deutsche Bank General Motors Corporation Lockheed Martin Corporation
Neville Isdell	Coca Cola HBC	Amalgamated Beverages Great Britain Limited Coca Cola Beverages plc
June de Moller	Aldeburgh Productions 35 Cadogan Square Management Limited Cookson Group Plc Eastern Counties Newspaper Group Limited J Sainsbury plc Lynx Group Plc The Home of Rest for Horses	Anglian Water Plc Anglian Water LTIP Limited Carlton Broadcasting Holdings Limited Carlton Broadcasting Limited Carlton Communications Plc Carlton Electronics Limited Carlton International Media Limited Carlton Television Limited Carlton US Investments Limited CHE (1986) Limited CHE Holdings Limited Comelin Circuits Limited Evergreen Film Productions Limited Independent Television News Limited Pickwick Home Entertainment Limited Quantel Group Limited Quantel Limited Riverside Mental Health NHS Trust
Sir John Weston	Hakluyt & Company Limited Rolls-Royce plc	

At the date of this document no Director:

- (a) has any unspent convictions in relation to any indictable offences; or
- (b) has been bankrupt or entered into an individual voluntary arrangement; or
- (c) was a director with an executive function of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors; or
- (d) has been a partner in a partnership at the time of or within 12 months preceding any compulsory liquidation, administration or partnership voluntary arrangement of such partnership; or
- (e) has had his assets the subject of any receivership or has been a partner of a partnership at the time of or within 12 months preceding any assets thereof being the subject of a receivership; or
- (f) has been subject to any public criticism by any statutory or regulatory authority (including any recognised professional body) nor has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

7. Directors' and others' interests

- (a) At 9 May 2001, the latest practicable date prior to the publication of this document, the interests of the Directors (and persons connected with them within the meaning of section 346 of the Companies Act) in the share capital of BT (a) which are required to be notified by each Director to BT pursuant to section 324 or section 328 of the Companies Act or (b) are required to be entered in the register referred to in section 325 of the Companies Act or (c) are interests of a connected person of a Director which would, if the connected person were a Director, be required to be disclosed under (a) or (b), and the existence of which is known, or which could, with reasonable diligence, be ascertained by that Director, were as follows:

Interests in BT Shares

<i>Name of Director</i>	<i>Number of BT Shares prior to the Rights Issue</i>	<i>Number of BT Shares immediately following the Rights Issue^(b)</i>
Sir Christopher Bland	—	—
Sir Peter Bonfield CBE	10,862 ^(a)	14,120
Philip Hampton	780	1,014
Lord Marshall of Knightsbridge	2,000	2,600
Sir Anthony Greener	10,136	13,176
Helen Alexander	930	1,209
Dr Iain Anderson	5,910	7,683
Maarten van den Bergh	1,000	1,300
Louis Hughes	6,800	8,840
Neville Isdell	7,500	9,750
June de Moller	1,500	1,950
Sir John Weston	1,046	1,359

In aggregate the Directors' interests in BT Shares amount to approximately 0.0007 per cent. of BT's issued share capital prior to the Rights Issue.

Notes:

- (a) Includes 9,606 BT Shares held by Ilford Trustees (Jersey) Limited.
- (b) Directors' shareholdings following the Rights Issue assuming each takes up his rights in full.

Whilst Sir Christopher Bland does not currently own any BT Shares or options over BT Shares, it is a term of his contract of employment with BT, a copy of which is available for inspection at BT's registered office, that:

- (i) as soon as permitted under BT's share dealing code, he purchases BT Shares to the value of at least £1,000,000;
 - (ii) as soon as practicable after the purchase in (i) above, he will be granted options under the BT Global Share Option Plan to the value of £1,000,000;
 - (iii) at the next grant to participants of awards under BT's Incentive Share Plan, he will be granted an award equal to twice his salary (i.e. £1,000,000); and
 - (iv) he will not be entitled to participate in BT's long term share plans for a further three years.
- (b) Details of interests in BT Shares held under the BT Schemes at 9 May 2001 (the latest practicable date prior to the issue of this document) are as follows:

Interests under the BT Schemes

	<i>ESP</i>	<i>DBP</i>	<i>ISP</i>	<i>RSP</i>	<i>ESS</i>	<i>SOS</i>	<i>Total</i>
Sir Christopher Bland	—	—	—	—	—	—	—
Sir Peter Bonfield CBE	400,921	186,332	184,974	—	6,460	—	778,687
Philip Hampton	—	—	—	60,189	—	—	60,189

Key:

ESP = BT Executive Share Plan

DBP = BT Deferred Bonus Plan

ISP = BT Incentive Share Plan

RSP = BT Retention Share Plan

ESS = BT Employee Sharesave Scheme 1994

SOS = BT Share Option Scheme

In aggregate, the Directors' interests under the BT Schemes amount to approximately 0.013 per cent. of BT's issued share capital.

- (c) Details of share options held, granted and exercised under the share option schemes during the year, and the balance held at 9 May 2001 (the latest practicable date prior to the issue of this document) are as follows:

	<i>Number of shares under option 2001</i>	<i>Option exercise price per share</i>	<i>Usual date from which exercisable</i>	<i>Usual expiry date</i>
Sir Christopher Bland	—	—	—	—
Sir Peter Bonfield CBE	6,460	267p	14/08/01	14/02/02
Philip Hampton	—	—	—	—
Total	88,947			

All of the above options were granted for nil consideration. No options were granted to or exercised by the directors during the year. The above table also represents the position at 1 April 2000.

Unrealised gains on the above share options at 31 March 2001, based on the market price of the shares at that date, excluding the employee compensation for the special dividend which is discretionary in respect of directors' share options, were as shown below:

	<i>Options exercisable</i>			<i>Options not exercisable</i>		
	<i>Unrealised gains</i>			<i>Unrealised gains</i>		
	<i>Number of shares</i>	<i>2001 £000</i>	<i>2000^(a) £000</i>	<i>Number of shares</i>	<i>2001 £000</i>	<i>2000^(a) £000</i>
Sir Christopher Bland	—	—	—	—	—	—
Sir Peter Bonfield CBE	—	—	—	6,460	16	59
Philip Hampton	—	—	—	—	—	—

Note:

(a) Based on options outstanding at 31 March 2000 and the market price of the shares at that date.

The market price of the shares at 31 March 2001 was 510 pence (2000 — 1,175 pence) and the range during the 2001 financial year was 1,172 pence to 469 pence.

- (d) Details of the BT Shares provisionally awarded to directors, as participants under the ESP, ISP and RSP are as follows:

	<i>Total number of award shares^(a)</i>					<i>Range of value of award^{(b)(c)}</i>	
	<i>1 April 2000</i>	<i>Awarded</i>	<i>Vested</i>	<i>Dividends reinvested</i>	<i>31 March 2001</i>	<i>Minimum £000</i>	<i>Maximum £000</i>
Sir Christopher Bland	—	—	—	—	—	—	—
Sir Peter Bonfield CBE	390,207	179,516	—	16,172	585,895	304	2,988
Philip Hampton ^(c)	—	59,361	—	828	60,189	303	303
Total	390,207	238,877	—	17,000	646,084	607	3,291

Notes:

(a) Excluding shares purchased by each director and held under the ESP.

(b) Based on the market value of BT Shares at 31 March 2001. The minimum figure represents those shares held at 31 March 2001 which will transfer to each director under the ESP at the end of year five of the plan (2001 to 2005) and at the end of year three of the ISP (2003). The maximum figure represents all shares held at 31 March 2001 which will transfer to each director at the end of year five of the ESP (2001 to 2005) and at the end of year three of the ISP (2003) provided the corporate performance measure has been fully met.

(c) Philip Hampton was granted an award over 59,361 shares under the RSP, equivalent to 100 per cent. of salary. This award will vest in three equal tranches, provided that he is still employed by BT, on the first, third and fifth anniversaries of 1 November 2000, the date of the commencement of his employment with BT. The vesting of the shares is not subject to the satisfaction of a corporate performance target.

- (e) The following deferred bonuses have been awarded to the directors under the BT Deferred Bonus Plan. These shares will normally be transferred to participants at the end of the three-year deferred period if those participants are still employed by BT.

	<i>Total number of bonus shares</i>				<i>Market value 2001</i>	
	<i>1 April 2000</i>	<i>Awarded</i>	<i>Dividends reinvested</i>	<i>31 March 2001</i>	<i>£000</i>	<i>£000</i>
Sir Christopher Bland	—	—	—	—	—	—
Sir Peter Bonfield CBE	123,938	57,537	4,857	186,332	950	1,456
Philip Hampton	—	—	—	—	—	—

At 31 March 2001, Sir Peter Bonfield and Philip Hampton each had a non-beneficial interest in 89,326 shares (2000 — 78,454) purchased by BT Employee Share Trustees Limited for allocation to employees under the BT Employee Share Ownership Scheme, and 19,144,802 shares (2000 — 19,292,068) held in trust by Ilford Trustees (Jersey) Limited for allocation to employees under the employee share schemes.

- (i) Save as disclosed above, none of the Directors (nor any person connected with them) will have a beneficial or non-beneficial interest in the share capital of BT. Save as disclosed above, none of the Directors (nor any person connected with them) holds an interest in any other securities of BT.
- (ii) No Director has or has had any interests in any transaction which is or was unusual in its nature or conditions or is or was significant to the business of BT or the Group and which was effected by the Group in the current or immediately preceding financial year of the Group or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.
- (iii) It is estimated that under arrangements in force as at the date of this document, the aggregate remuneration to be paid and benefits in kind to be granted to the Directors by the Group for the year ending 31 March 2002 will be approximately £3,605,000.
- (iv) The aggregate of the remuneration paid and benefits in kind granted to the Directors by any member of the Group in respect of the year ended 31 March 2001 was approximately £2,000,000 including benefits from car schemes, loans and health insurance arrangements.
- (v) There are no outstanding loans granted by BT or any member of the Group to any Director nor are there any guarantees provided by any member of the Group for the benefit of any Director.
- (vi) None of the Directors has waived or agreed to waive any future emoluments during the past financial year.
- (f) The Company is not aware of any persons who as at the date of this document could directly or indirectly, jointly or severally, exercise or could exercise control over the Company.
- (g) As at 9 May 2001, being the latest practicable date prior to the publication of this document, the Company is not aware of any person who is or, immediately following Admission, will be interested (within the meaning of the Companies Act), directly or indirectly, in three per cent. or more of the issued share capital of the Company.

8. Directors' service agreements and terms of appointment

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

	<i>Salary and fees</i>	<i>Other Benefits^{(a)(b)}</i>
<i>Chairman and Executive Directors</i>	<i>£000</i>	<i>£000</i>
Sir Christopher Bland	500	50
Sir Peter Bonfield ^(c)	820	50
Philip Hampton	435	50

Notes:

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

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

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

Notes:

- (a) Sir Christopher Bland's contract is terminable on 12 months' notice by either the Company or the Director.
- (b) Sir Peter Bonfield entered into a new contract on 4 May 2001, which continues to 31 December 2002, terminable on six months' notice by the Director. It may continue after that date if both the Company and the Director agree.
- (c) Philip Hampton entered into a contract commencing on 1 November 2000 for an initial period of two years. After the initial period, the contract is terminable on 12 months' notice by either the Company or the Director.

Non-Executive Directors

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

<i>Name of Non-Executive Director</i>	<i>Date of expiry of current term of appointment^(a)</i>	<i>Total fees and other benefits</i>
Lord Marshall of Knightsbridge	End of the 2001 AGM	£75,000
Sir Anthony Greener	30 September 2003	£60,000
Helen Alexander	31 May 2002	£35,000
Dr Iain Anderson	See note ^(b)	£57,000
Maarten van den Bergh	31 August 2003	£40,000
Louis Hughes	31 December 2002	£32,000
Neville Isdell	30 June 2001	£40,000
June de Moller	31 August 2002	£35,000
Sir John Weston	30 September 2001	£38,000

Notes:

- (a) Each Director's contract of appointment is for an initial period of three years. After that period, the contract is terminable on 12 months' notice by either the Company or the Director.
- (b) Terminable on 12 months' notice by either the Company or the Director or on one month's notice effective on the sixth anniversary of the initial appointment.

9. UK taxation

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

Capital gains tax

For the purposes of UK taxation of capital gains ("CGT"), the issue of the new BT Shares will be regarded as a reorganisation of the share capital of the Company.

Accordingly, you will not be treated as making a disposal of all or part of your holding of existing BT Shares by reason of taking up all or part of your rights to new BT Shares. No liability to CGT in respect of the new BT Shares should arise to the extent that you take up your entitlement to new BT Shares.

Your new BT Shares will be treated as the same asset as, and as having been acquired at the same time and at the same aggregate cost as, your existing holding of BT Shares. The subscription money for your new BT Shares will be added to the base cost of your existing holding(s) of BT Shares.

In the case of a shareholder within the charge to corporation tax, indexation allowance will apply to the amount paid for the new BT Shares only from the date the money for the new BT Shares is paid or is liable to be paid.

In the case of other shareholders, indexation allowance will not be given for any period after 5 April 1998. Accordingly, if you are such a shareholder, indexation allowance on your original holding of BT Shares will be given for months up to April 1998, but not after that, and indexation allowance will not be given in respect of amounts paid for the new BT Shares. Instead, indexation allowance has been replaced by a taper relief which will reduce the amount of chargeable gains realised on a subsequent disposal of your shareholding according to how long the shares have been held since 6 April 1998 or since the shares were acquired, whichever is the later.

If you dispose of some of the new BT Shares allotted to you, or your rights to subscribe for them, or if you allow or are deemed to have allowed your rights to lapse and receive a cash payment in respect of them you may, depending on your circumstances, incur a liability to CGT.

If you dispose of all or part of your rights to subscribe for new BT Shares or allow or are deemed to allow them to lapse in return for a cash payment and the proceeds resulting from the disposal or lapse of rights are “small” as compared to the value of the BT Shares in respect of which the rights arose, you will not be treated as making a disposal for CGT purposes. No liability to CGT will then arise as a result of the disposal or lapse of the rights, but the cash amount received will be deducted from the base cost for CGT purposes of your existing holding of BT Shares. The Inland Revenue currently regard a receipt as “small” if its amount or value is five per cent. or less of the value of the BT Shares in respect of which the entitlement to the receipt arose, or if its amount or value is £3,000 or less, regardless of whether or not it is more than five per cent. of the value of the BT Shares in respect of which the rights arose.

A BT shareholder not resident in the UK for tax purposes but who carries on a trade, profession or vocation in the UK through a branch or an agency to which the new BT Shares are attributable may be subject to CGT on a disposal of such shares.

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

Dividends

The Company will not be required to withhold tax at source when paying a dividend.

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

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

Tax credits on dividends paid by the Company in respect of shares held in PEPs or ISAs will be repayable for dividends paid on or before 5 April 2004.

UK resident corporate shareholders will generally not be subject to corporation tax on dividends paid by the Company. Those shareholders will not be able to claim repayment of tax credits attaching to dividends.

In general, the right of non-UK resident holders of BT Shares to reclaim tax credits attaching to dividend payments will depend upon the terms of any applicable double tax treaty which exists between the jurisdiction in which they are resident and the UK. In most cases, the amount that can be paid to non-UK resident holders of BT Shares in respect of any dividend payment will be reduced to nil as a result of the terms of the relevant treaty. A shareholder resident outside the UK may also be subject to foreign taxation on dividend income under local law. A shareholder who is not resident in the UK should consult his own tax adviser concerning his tax liabilities on dividends received from the Company.

Stamp duty and stamp duty reserve tax ("SDRT")

No stamp duty or SDRT will be payable on the issue of PALs or the crediting of Nil Paid Rights to accounts in CREST. Accordingly, where new BT Shares represented by such documents or rights are registered in the name of the shareholder entitled to such shares or new BT Shares are credited in uncertificated form to CREST accounts, no liability to stamp duty or SDRT will arise.

The purchaser of rights to new BT Shares represented by PALs (whether nil paid or fully paid) or Nil Paid Rights held in CREST on or before the latest time for registration or renunciation will not generally be liable to pay stamp duty, but the purchaser will normally be liable to pay SDRT at the rate of 0.5 per cent. of the actual consideration paid. Where such a purchase is effected through a stockbroker or other financial intermediary that person will normally account for the SDRT and will indicate that this has been done in any contract note issued to a purchaser. In other cases, the purchaser of the rights to the new BT Shares represented by PALs or Nil Paid Rights is liable to pay the SDRT and must account for it to the Inland Revenue. SDRT arising on the transfer of Nil Paid Rights held in CREST will be collected and accounted for to the Inland Revenue by CRESTCo.

No stamp duty or SDRT will be payable on the registration of PALs or Nil Paid Rights, whether by the original holders or their renounees.

Where new BT Shares are issued or transferred (a) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depository receipts, stamp duty or SDRT will be payable at a higher rate of 1.5 per cent. of the amount or value of the consideration payable or, in certain circumstances, the value of the new BT Shares. This liability for Stamp Duty or SDRT will strictly be accountable by the depository or clearance service operator or their nominee, as the case may be, but will, in practice, generally be reimbursed by participants in the clearance service or depository receipt scheme. Clearance services may opt, provided certain conditions are satisfied, for the normal rate of stamp duty or SDRT (generally 0.5 per cent. of the consideration paid) to apply to issues or transfers of new BT Shares into, and to transactions within, such services instead of the higher rate of 1.5 per cent. generally applying to an issue or a transfer of new BT Shares into the clearance service and the exemption from stamp duty and SDRT on transfers of the new BT Shares whilst in the service.

Any subsequent dealings in new BT Shares will be subject to stamp duty or SDRT in the normal way. The transfer on sale of new BT Shares will be liable to *ad valorem* stamp duty, generally at the rate of 0.5 per cent. (rounded up to the next multiple of £5.00) of the consideration paid. Stamp duty is normally the liability of the purchaser or transferee of the new BT Shares. An unconditional agreement to transfer such shares will normally give rise to SDRT, at the rate of 0.5 per cent. of the amount or value of the consideration paid for such shares, but such liability will be cancelled, or any SDRT paid refunded, if the agreement is completed by a duly stamped transfer within six years of the agreement having become unconditional. SDRT is normally the liability of the purchaser or transferee of the new BT Shares.

Under the CREST system for paperless share transfers, no stamp duty or SDRT will arise on a transfer of shares into the system, unless the transfer into CREST is itself for consideration in money or money's worth, in which case a liability to SDRT will arise, usually at the rate of 0.5 per cent. of the amount or value of consideration given. Transfers of shares

within CREST are generally liable to SDRT (at a rate of 0.5 per cent. of the consideration paid) rather than stamp duty, and SDRT on relevant transactions settled within the system or reported through it for regulatory purposes will be collected and accounted for to the Inland Revenue by CRESTCo.

The above statements are intended as a general guide to the current stamp duty and SDRT position. Certain categories of person, including market makers, brokers, dealers and persons connected with depositary arrangements and clearance services, are not liable to stamp duty or SDRT and others may be liable at a higher rate or may, although not primarily liable for tax, be required to notify and account for it under the Stamp Duty Reserve Tax Regulations 1986.

10. Irish taxation

The comments below are based on existing Irish law and the current practice of the Revenue Commissioners both of which are subject to change at any time, possibly with retrospective effect. They are intended only as a general guide and do not constitute tax or legal advice. The comments apply only to shareholders who are resident and ordinarily resident for tax purposes in (and only in) Ireland, who hold existing and new BT Shares as an investment and who are the absolute beneficial owners thereof. The taxation position of certain shareholders who are subject to special rules, such as dealers in securities, pension funds, and collective investment schemes, is not considered. Persons who are in any doubt about their tax position, or who are resident or otherwise subject to taxation in a jurisdiction outside Ireland, should consult their own professional advisers.

Capital gains tax

For the purposes of Irish capital gains tax, the issue of the new BT Shares to BT Shareholders in proportion to their existing shareholding in BT will be regarded as a reorganisation of the share capital of the Company.

Accordingly, you will not be treated as making a disposal of all or part of your holding of existing BT Shares by reason of taking up your rights to new BT Shares. No liability to Irish tax on capital gains in respect of the new BT Shares should arise to the extent that you take up your entitlement to new BT Shares.

Your existing and new BT Shares together will be treated as the same asset as, and as having been acquired at the time and at the same aggregate cost as, your existing holding of BT Shares. The subscription money for your new BT Shares will be added to the base cost of your existing holding(s) of BT Shares, although indexation relief will apply to the amount paid for the new BT Shares only from the date the money for the new BT Shares is paid.

If you sell all or some of the new BT Shares allotted to you, or your rights to subscribe for them, or if you allow or are deemed to have allowed your rights to lapse and receive a cash payment in respect of them you may, depending on your circumstances, incur a liability to tax on any capital gains realised, giving rise to capital gains tax or corporation tax on chargeable gains in Ireland. Where the disposal proceeds are received in pounds sterling, they will be translated into Irish pounds to calculate the amount of any chargeable gain or loss.

Dividends

Dividends paid by the Company will generally be taxable in Ireland in the hands of shareholders resident or ordinarily resident in Ireland. Shareholders who are individuals will be liable to Irish income tax at their marginal rate on the actual cash dividend received without any credit for the UK tax credit attached to the dividend. Individuals will also be liable to the 1 per cent. health levy and, in the case of self employed persons, to pay a related social insurance contribution of 3 per cent..

Corporations will generally be subject to corporation tax on income on the actual cash dividend received. In the case of corporations holding 10 per cent. or more of the issued share capital of the Company with associated voting rights, a credit may be claimed in respect of the related underlying UK corporation tax paid with respect to the relevant profits of the Company out of which the dividend was paid under the provisions of the UK-Ireland double tax treaty.

Stamp duty

No Irish stamp duty will be payable on the issues of Provisional Allotment Letters or Nil Paid Rights credited to an account in CREST. Accordingly, where new BT Shares represented by such documents or rights are registered in the name of the shareholder entitled to such shares or credited to a CREST account, no liability to Irish stamp duty will arise.

The transfer or sale of new BT Shares after the latest date for registration of renouncement or in subsequent dealings may be subject to Irish stamp duty if the transfer or sale relates to Irish immoveable property or shares or securities in an Irish registered company.

See the section “UK Taxation — Stamp duty and stamp duty reserve tax” for further information on potential UK liabilities arising on transfers of BT Shares or Nil Paid Rights.

11. German taxation

The comments below are based on existing German tax law, which is subject to change, possibly with retrospective effect. They are intended only as a general guide. The comments do not refer to all information which could be necessary in making the decision whether to subscribe for new BT Shares. The comments apply only to Qualifying Shareholders who are resident in (and only in) Germany for tax purposes, do not deal with all aspects relevant to tax, and, in particular, do not deal with the specific fiscal circumstances of a particular individual or with certain types of shareholder, such as credit institutions, financial services institutions or financial enterprises. Church tax is not addressed. Persons subject to limited tax liability are not addressed. Potential subscribers of new BT Shares are, therefore, recommended to consult their personal tax adviser on the specific implications of the purchase, holding and transfer of BT Shares for them.

In 2000, the German Parliament passed the *Steuersenkungsgesetz* (Tax Reduction Act) to reduce tax rates and reform corporate taxation. The new law is generally effective since 1 January 2001 and generally provides for a so-called “half-income” system (“*Halbeinkünfteverfahren*”) for individuals and for a tax exemption system for corporate holders. This means that in future a holder of BT Shares will only be taxed on 50 per cent. of any dividend received or, in certain circumstances, of any capital gain and is likely to be almost tax exempt if the holder is a corporation. It is possible that the new tax regime will apply only as of 2002 in which case the former tax regime would apply in 2001. This possibility is not generally discussed in detail below, and is only dealt with in certain specific cases.

Taxation of capital gains

The Rights Issue and the exercise of the right to subscribe for new BT Shares will be regarded as a reorganisation of the share capital of the Company and will, therefore, not be a taxable event for German tax purposes. Holders of existing BT Shares will not, therefore, be treated as making a taxable disposal of all or part of their existing BT Shares by reason of taking up all or part of their rights to new BT Shares.

Individuals

If the PALs or Nil Paid Rights are held as German business assets, 50 per cent. of any capital gain realised on a disposal of the PALs or Nil Paid Rights will be subject to trade tax. Additionally, such gains will be subject to income tax at progressive rates and to a solidarity surcharge of 5.5 per cent.. 50 per cent. of any expenses related to the PALs or Nil Paid Rights would be deductible from any gain realised on disposal of the PALs or Nil Paid Rights.

Capital gains arising on the disposal of PALs or Nil Paid Rights held as private assets by individuals who are resident in Germany will be subject to German tax if the disposal takes place within one year of the purchase of the existing BT Shares from which the PALs or Nil Paid Rights are derived by the relevant shareholders. According to the German fiscal authorities, if the disposal takes place more than one year after the purchase of the existing BT Shares from which the PALs or Nil Paid Rights are derived, the disposal will only be subject to tax if the shareholder (or previous owner in the case of a transfer of shares without consideration), directly or indirectly held or holds 1 per cent. or more of all BT Shares which are in issue at any time during the five years preceding the disposal. A taxable event could also arise if the PALs or Nil Paid Rights to which a shareholder is entitled, together with the existing BT Shares held by that shareholder, constitute more than 1 per cent. of all BT Shares and the PALs or Nil Paid Rights were disposed of.

To the extent that capital gains are subject to income tax, 50 per cent. of such gains will be subject to the progressive income tax rates and to a solidarity surcharge of 5.5 per cent. 50 per cent. of any expenses related to the PALs or Nil Paid Rights would be deductible against any gain realised on disposal of such rights.

The tax base of the PALs or Nil Paid Rights is determined by deducting a portion of the acquisition costs of the existing BT Shares from the proceeds of the sale of the PALs or Nil Paid Rights.

If the BT Shares are held as German business assets, 50 per cent. of any capital gain realised on disposal would be subject to trade tax.

Additionally, capital gains from the sale of BT Shares held as German business assets would be subject to income tax and solidarity surcharge.

Capital gains from the sale of BT Shares held as private assets by individuals are only subject to taxation if (i) the sale takes place within one year of the purchase of those shares or (ii) after this period has lapsed, the shareholder (or previous owner in the case of a transfer of shares without consideration) directly or indirectly held or holds 1 per cent. or more of all BT Shares at any time during the five years preceding the sale (PALs or Nil Paid Rights may be taken into consideration in calculating the percentage of BT Shares held by a shareholder). However, for private individuals a capital gain deriving from a disposal of BT Shares is tax exempt if the total gains from private disposal transactions (*private Veräußerungsgeschäfte*) in the relevant calendar year amount to less than DEM1,000 per person (€512 per person from 2002).

To the extent that capital gains are subject to income tax, 50 per cent. of such gains are subject to the progressive income tax rate plus a solidarity surcharge of 5.5 per cent. thereon. 50 per cent. of expenses related to the acquisition of new BT Shares are deductible against any gain realised on disposal of such shares.

A holder's tax base in their shares is determined by deducting acquisition costs from sale proceeds. As a result of the Rights Issue, a portion of the historical acquisition costs of a holder's existing BT Shares (from which their new BT Shares are derived) will be allocated to the new BT Shares.

Losses incurred by an individual from a disposal of shares might not be deductible in whole or in part.

If the new tax regime were to apply only as of 2002, capital gains in 2001 would be fully included in the tax base where the capital gain is taxable.

Corporations

Capital gains realised by shareholders subject to German corporation tax on disposals of PALs, Nil Paid Rights or BT Shares will be exempt from German corporation tax and trade tax.

If the new tax regime were to apply only as of 2002 capital gains realised in 2001 would be subject to trade tax, corporation tax and solidarity surcharge. However, capital gains may be exempt from tax if a shareholder held 10 per cent. or more of the BT Shares.

Dividends

Individuals

If the BT Shares are held as German business assets, 50 per cent. of any dividends received will be subject to trade tax. However if the shareholder holds 10 per cent. or more of the BT Shares and other requirements are met a tax exemption will apply.

Individuals are taxed on 50 per cent. of the gross dividend paid at progressive income tax rates and a solidarity surcharge of 5.5 per cent. is levied.

Private individual shareholders may claim a tax allowance for investment income (*Sparerfreibetrag*) of DEM3,000 p.a. (€1,500 p.a. from 2002). In the case of married couples filing a joint income tax return, the tax allowance amounts to DEM6,000 p.a. (€3,100 p.a. from 2002). Such Shareholders may also deduct from their dividend income 50 per cent. of the costs related to their shareholding (*Werbungskosten*) including, in particular, any fees for custody and refinancing. An

amount of DEM100 p.a. (€51 p.a. from 2002) and in the case of married couples filing a joint income tax return an amount of DEM200 p.a. (€102 p.a. from 2002), may be deducted without evidence of expenditure.

If the new tax regime were to only apply as of 2002, dividends paid in 2001 would be fully subject to income tax plus solidarity surcharge and, where applicable and no tax exemption applies, to trade tax. Expenses could be fully deducted.

Corporations

Dividends paid to shareholders subject to German corporation tax are exempt from tax. However, 5 per cent. of the dividend is treated as a non-deductible business expense and will be subject to corporation tax at a rate of 25 per cent. (plus a 5.5 per cent. solidarity charge) and trade tax.

If the new tax regime were to only apply as of 2002, dividends paid in 2001 would be subject to German tax trade and corporation tax plus solidarity surcharge. If the shareholder held 10 per cent. or more of the BT Shares the dividends might be tax exempt. However, if the dividends were tax exempt a portion of 5 per cent. of such dividends would be deemed a non-deductible expense for corporation tax (including solidarity surcharge) and, possibly, trade tax purposes.

Inheritance and gift tax

Generally, the transfer of foreign shares to another person as a gift or due to death is subject to German inheritance and gift tax, if:

- (a) the donor (or testator) or the recipient has, at the time of transfer of the assets, his residence or usual place of stay in Germany or before this time has been a German citizen not living continuously abroad for more than five years, without having residence in Germany; or
- (b) the BT Shares were held as business assets, for which a permanent establishment was maintained in Germany or a permanent representative was commissioned.

Other taxes

In the event of purchase, sale or other alienation of BT Shares, there is no German capital transfer tax, sales tax, stamp duty or similar tax incurred. A liability to real estate transfer tax might be incurred if 95 per cent. or more of the BT Shares were transferred to or owned by a single shareholder and the Company or a direct or indirect subsidiary of it held real estate in Germany.

See the section “UK Taxation – Stamp duty and stamp duty reserve tax” for further information on UK potential liabilities arising on transfers of BT Shares or Nil Paid Rights.

12. Dutch taxation

The comments below are based on existing Dutch tax law, which is subject to change, possibly with retrospective effect. They are intended only as a general guide and do not refer to all information which may be necessary in making the decision to subscribe for new BT Shares. The comments apply only to shareholders who are resident and ordinarily resident for tax purposes in (and only in) The Netherlands and who hold existing and new BT Shares as an investment. Potential subscribers for new BT Shares are, therefore, recommended to consult their personal tax adviser on the specific implications of the purchase, holding and transfer of BT Shares.

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

- (a) individuals who are resident or deemed to be resident in The Netherlands and, with respect to individual income taxation, individuals who opt to be taxed as a resident of The Netherlands for the purposes of Dutch taxation and who subscribe for new BT Shares (“Dutch Individuals”), excluding individuals:
 - (i) who derive benefits from the BT Shares that are taxable as benefits from miscellaneous activities (*resultaat uit overige werkzaamheden*);
 - (ii) for whom the BT Shares or any payment connected therewith may constitute employment income; and

- (iii) who have a substantial interest, or a deemed substantial interest in the Company; and
- (b) corporate entities (including associations which are taxable as corporate entities) that are resident or deemed to be resident in The Netherlands for purposes of Dutch taxation and who subscribe for new BT Shares (“Dutch Corporate Entities”), excluding:
 - (i) corporate entities that are not subject to Dutch corporate income tax;
 - (ii) pension funds (*pensioenfondsen*) and other entities that are exempt from Dutch corporate income tax;
 - (iii) corporate entities for whom BT Shares qualify as a participation, the benefits derived from which are exempt under the participation exemption (as laid down in the Dutch Corporate Income Tax 1969); and
 - (iv) investment institutions (*beleggingsinstellingen*) as defined in the Dutch Corporate Income Tax Act 1969.

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

Individual and corporate income and capital gains tax

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

Generally, a Dutch Individual who holds BT Shares (including new BT Shares) that are not attributable to an enterprise from which he derives profits as an entrepreneur (*ondernemer*) or pursuant to a co-entitlement to the net worth of such enterprise other than as an entrepreneur or a shareholder, will be subject to a fictitious yield tax. The BT Shares held by such a Dutch Individual will be taxed under the regime for savings and investments. Irrespective of the actual income or capital gains, the annual taxable benefit of all the assets and liabilities of a Dutch Individual that are taxed under such regime including, as the case may be, the BT Shares, is set at a fixed percentage. This percentage is 4 per cent. of the average fair market value of these assets and liabilities taken at the beginning and end of every year (minus a tax-free amount). The tax rate applicable under the regime for savings and investments is 30 per cent.

Dutch Individuals engaged or deemed to be engaged in an enterprise

Any benefits derived or deemed to be derived from the existing or new BT Shares (including any capital gains realised on the disposal thereof) that are attributable to an enterprise from which such a Dutch Individual derives profits, whether as an entrepreneur or pursuant to a co-entitlement to the net worth of such enterprise (other than as an entrepreneur or a shareholder), are generally subject to income tax in the individual’s hands at statutory rates.

Dutch Corporate Entities

Any benefits derived or deemed to be derived from the BT Shares (including any capital gains realised on the disposal thereof) that are held by a Dutch Corporate Entity are generally subject to corporate income tax in its hands at statutory rates.

Gift and inheritance taxes

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

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

Other taxes and duties

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

See the section “UK Taxation — Stamp duty and stamp duty reserve tax” for further information on potential UK liabilities arising on transfers of BT Shares or Nil Paid Rights.

13. Significant change

Save as disclosed in the paragraph headed “Disposals” in Part 1 of this document and in note 17 to the Preliminary Results of BT for the year ended 31 March 2001 in Part 4, there has been no significant change in the financial or trading position of the Group since 31 March 2001, being the date to which the preliminary results (as set out in Part 4 of this document) were drawn up.

14. Litigation

Neither BT nor any other member of the Group is or has been involved in any legal or arbitration proceedings nor, so far as the Directors are aware, are any such proceedings pending or threatened by or against BT or any other member of the Group in any case which may have, or has had during the 12 months prior to the date of this document, a significant effect on the financial position of the Group.

15. Material contracts

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

(a) Viag Interkom

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

On 19 February 2001, BT, and BT Interkom Verwaltungs GmbH exercised their options and entered into share transfer agreements with each of the joint venture partners for the transfer of their interest in the venture to BT.

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

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

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

(b) Japan

A sale and purchase agreement dated 2 May 2001 between BT, a subsidiary of BT, Vodafone Group plc (“Vodafone”) and a subsidiary of Vodafone, under which the subsidiary of BT agreed to sell three subsidiaries which hold its interests in Japan Telecom Co., Ltd. (“JT”), J-Phone Communications Co., Ltd. (“JPC”), J-Phone Central Co., Ltd (“JC”), J-Phone East Co, Ltd. (“JEC”) and J-Phone West Co., Ltd. (“JWC”). JT is one of Japan’s leading telecommunications companies and parent of JPC, which in turn has controlling interests in the three regional J-Phone wireless operating companies, JC, JEC and JWC. The consideration for the transaction comprises a cash payment of £3.7 billion, and the assumption by Vodafone of £782 million of BT debt guarantees in favour of JT. The closing of the transaction remains conditional upon relevant procedural approvals, including the consent of the Bank of Japan. The parties have certain termination rights. Closing of the transfer of the subsidiaries holding BT’s interests in JT and JPC (for £3.05 billion) may occur prior to (and is not conditional upon) closing of the transfer of its interests in JEC and JWC for the Euro equivalent of £650 million (which will follow upon completion of the exercise of certain options over shares in JC, JEC and JWC, with the option price of some £380 million to be paid by BT). The agreement contains certain standard warranties and indemnities in favour of Vodafone. These largely expire on 30 June 2002, however certain limited tax and title warranties survive indefinitely.

(c) Spain

A sale and purchase agreement dated 2 May 2001 between BT, a subsidiary of BT and Vodafone under which the BT subsidiary has agreed to sell its entire interest in Airtel Móbil, S.A. to Vodafone. The consideration for the transaction is £1.1 billion (payable in cash in euros). The closing of the transaction is conditional on EC Merger Regulation approval.

16. Working capital

The Company is of the opinion that the Group has sufficient working capital for its present requirements, that is at least for the next twelve months from the date of the publication of this document.

17. Consents

- (a) Cazenove has given and has not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which they appear.
- (b) Merrill Lynch has given and has not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which they appear.
- (c) PricewaterhouseCoopers has given and has not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which they appear and has authorised the contents of its report for the purposes of Section 152(1)(e) of the Financial Services Act 1986.
- (d) The Law Debenture Trust Corporation p.l.c., has given and has not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which they appear.

18. Theoretical ex-rights price

The theoretical ex-rights price of 507 pence per BT Share (“T”) has been calculated using the following formula:

$$T = \frac{10q + 3r}{13}$$

where: q = 568.5 pence, being the last dealt price of a BT Share as derived from the Daily Official List of the London Stock Exchange on 9 May 2001, being the last business day before the announcement of the Rights Issue

r = the Issue Price, being 300 pence

19. Miscellaneous

- (a) The total costs and expenses of, or incidental to, the Rights Issue are estimated to be approximately £52 million (exclusive of VAT).
- (b) The auditor of BT is PricewaterhouseCoopers, Chartered Accountants and Registered Auditors, whose address is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers, or Coopers and Lybrand who merged with Price Waterhouse on 1 July 1998 to form PricewaterhouseCoopers, has audited the consolidated financial statements of BT for the three years ended 31 March 2000.
- (c) The Issue Price of 300 pence represents a premium of 275 pence to the nominal value of a BT Share.
- (d) Directors and employees of Cazenove, the sponsor and financial adviser to BT, who have been advising BT hold, in aggregate, an interest in 340 BT Shares.
- (e) The new BT Shares are not being marketed or made available to the public in whole or in part other than in connection with the Rights Issue.
- (f) The financial information set out in this document relating to the Company does not constitute statutory accounts of the Company within the meaning of section 240(5) of the Act. Statutory accounts for the Company for each of the three years ended 31 March 1998, 1999 and 2000 have been delivered to the Registrar of Companies in England and Wales. The auditors of the Company have made reports under section 235 of the Act in respect of these statutory accounts and each such report was an unqualified report and did not contain a statement under section 237(2) or (3) of the Act.
- (g) This document constitutes the offer of new BT Shares to all Qualifying CREST Shareholders (other than US Holders and holders of BT ADSs or Qualifying CREST Shareholders who have a registered address in, or who are residents of any of, Australia, Belgium, Canada, France, Japan or South Africa) for the purposes of section 90(2) of the Companies Act 1985.
- (h) The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the Provisional Allotment Letter and the letters of consent referred to in paragraph 17 of this Part 7.
- (i) The offer of the new BT Shares to the Qualifying Shareholders resident in Germany will be published on 14 May 2001 in *Handelsblatt*.

This document will be filed as a sales prospectus with the *Bundesaufsichtsamt für den Wertpapierhandel*, the German Securities Trading Supervisory Authority, together with the confirmation of the UK Listing Authority that this prospectus was approved by it in accordance with EC Directive No. 80/390/EEC on 10 May 2001 and as required under Section 13 para 3 *Verkaufsprospektgesetz* (German Sales prospectus Act). We expect that the *Bundesaufsichtsamt für den Wertpapierhandel* will rule by 14 May 2001 that it has waived, in accordance with Section 15 para 3 second sentence *Verkaufsprospektgesetz* (German Sales Prospectus Act), the requirement that a translation of the prospectus into German needs to be provided. Therefore, there will not be a German language version of this prospectus available and all information given in connection with this offering is in English.

It is expected that payment and delivery of share certificates (or credits to any CREST Accounts in respect of Qualifying CREST Shareholders) in respect of new BT Shares subscribed for by accepting shareholders in Germany will occur by 16 July 2001 (or in the case of Qualifying CREST Shareholders on 2 July 2001).

- (j) The Company is required pursuant to regulatory requirements in the Republic of Ireland to confirm to Qualifying Shareholders resident in the Republic of Ireland that notices of meetings of BT Shareholders or for any other purpose shall be posted to such shareholders at their registered addresses in the Republic of Ireland. If, for any reason the Company is unable to post any such notices, alternative arrangements to notify shareholders will be made by a publication of a notice in an appropriate newspaper in the Republic of Ireland.

20. Documents available for inspection

Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Company and at the offices of Linklaters & Alliance, One Silk Street, London EC2Y 8HQ for a period of 14 days from the date of this document:

- (a) the memorandum and articles of association of BT;
- (b) the audited consolidated financial statements of BT for the years ended 31 March 1999 and 2000 and the unaudited preliminary results announcement for the year ended 31 March 2001;
- (c) the report by PricewaterhouseCoopers set out in Part 5 of this document and the statements attached to it;
- (d) the letters of consent referred to in paragraph 17 above;
- (e) the trust deed relating to the BT Employee Share Ownership Scheme, and the BT employee trust deed dated 30 September, 1994, the BT employee trust deed No.2 dated 23 November, 1995 and the BT employee trust deed No.4 dated 28 July, 2000 (being trusts under which BT Shares for certain of the BT Schemes are held);
- (f) the US Prospectus dated 10 May 2001;
- (g) the service agreements referred to in paragraph 8 of this Part 7; and
- (h) the material contracts referred to in paragraph 15 of this Part 7.

Dated 10 May 2001



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