

Report of the auditors

TO THE SHAREHOLDERS OF BRITISH TELECOMMUNICATIONS plc

We have audited the financial statements on page 45 to 79. We have also examined the amounts disclosed relating to the directors' remuneration, share options and pension entitlements on pages 35 to 40.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibility, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board which are substantially the same as auditing standards generally accepted in the United States. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements referred to above:

- give a true and fair view of the state of affairs of the company and the group at 31 March 1998 and of the profit, total recognised gains and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.
- present fairly, in all material respects, the consolidated financial position of the group as at 31 March 1998 and 31 March 1997 and the results of their operations, total recognised gains and their cash flows for the years ended 31 March 1998, 31 March 1997 and 31 March 1996 in conformity with accounting principles generally accepted in the United Kingdom. The principles differ in certain respects from accounting principles generally accepted in the United States. The effect of the differences in the determination of net income, shareholders' equity and cash flows is shown in note 30 to the financial statements.

Coopers & Lybrand

Chartered Accountants and Registered Auditors

London

26 MAY 1998