

ITEM 2 – DESCRIPTION OF PROPERTY

The group has a property portfolio, comprising approximately 8,100 buildings at 31 March 1998, the majority of which are freehold, located principally throughout the United Kingdom. Specialised buildings account for the majority of properties both in number and book value. They house mainly exchange equipment and are needed as part of the group's continuing operations. They do not readily adapt to other uses. General purpose properties consist chiefly of offices, depots, computer centres and shops.

The principal categories of BT's plant and equipment are exchanges and transmission equipment. Transmission equipment is categorised as: copper, fibre and radio access; underground ducts for copper and fibre access; equipment for the trunk network; and cellular and other transmission equipment.

ITEM 3 – LEGAL PROCEEDINGS

The company does not believe there are any pending legal proceedings which would have a material adverse effect on the financial position or results of operations of the group.

Individuals purporting to represent classes of MCI shareholders have now filed seventeen complaints in the Court of Chancery in the State of Delaware (the "Delaware Shareholder Class Actions"), asserting claims in connection with the original and renegotiated terms of the then-proposed BT/MCI Merger. MCI and certain of its officers and directors, including officers of the company who served as MCI directors, are named as defendants in all seventeen Delaware Shareholder Class Actions. The company is named as a defendant in fifteen of these cases. The original and amended complaints filed in these fifteen cases collectively allege that the company breached and aided and abetted breaches of fiduciary duties owed to MCI shareholders in connection with the then-proposed BT/MCI Merger. In addition, amended complaints in five of the Delaware Shareholder Class Actions assert claims in connection with the pending WorldCom/MCI merger, including challenges to the merger termination fee paid to the company and the company's right to receive cash in exchange for its Class A common shares in MCI. Four of these amended complaints name the company as a defendant. The court, having issued an order consolidating fifteen of the Delaware Shareholder Class Actions, subsequently directed the plaintiffs to submit a proposed order vacating that consolidation order and to submit a new proposed order of consolidation. The parties have agreed that the defendants are not obligated to respond to the complaints filed in these fifteen cases until the consolidation issue has been resolved and the plaintiffs serve the defendants with a consolidated and amended complaint. In the two Delaware Shareholder Class Actions that were not included in the court's initial consolidation order, neither the company nor its officers who served as MCI directors have been served, and have therefore not responded to the complaints.

In addition, after the renegotiation of the terms of the BT/MCI Merger, an MCI shareholder filed a derivative action on behalf of MCI in the Court of Chancery in the State of Delaware. The complaint names the company and certain officers and directors of MCI, including officers of the company who served as MCI directors, as defendants. Among the claims asserted in the complaint is the allegation that the company aided and abetted breaches of fiduciary duty in connection with the proposed BT/MCI Merger. The complaint does not take into account the subsequent WorldCom/MCI agreement. The parties have agreed that defendants need not respond to the complaint until the plaintiffs serve an amended complaint. No such complaint has yet been served.

In addition, individuals purporting to represent a class of persons who purchased MCI shares during the period 11 July 1997 through 21 August 1997 have filed a consolidated amended class action complaint (the "Complaint") under the caption *In Re MCI Communications Corp Securities Litigation*, now pending in the federal district court for the District of Columbia. The Complaint supersedes certain earlier federal securities class action complaints. The Complaint alleges that MCI, the company and certain MCI officers and directors, including officers of the company who served as MCI directors, violated the federal securities laws by failing timely to disclose that MCI was renegotiating the terms of the Merger with the company.

The company believes that it will prevail in the foregoing actions.