

Report of the auditors

TO THE SHAREHOLDERS OF BRITISH TELECOMMUNICATIONS plc

We have audited the financial statements on page 59 to 103. We have also examined the amounts disclosed relating to the directors' remuneration, share options, long term incentives and pension entitlements on pages 47 to 55.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report including, as described on page 57, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the report of the directors is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on page 44 reflects the company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the group's corporate governance procedures or its internal controls.

Basis of audit 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:

- give a true and fair view of the state of affairs of the company and the group at 31 March 1999 and of the profit 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 1999 and 31 March 1998 and the results of its operations and its cash flows for the years ended 31 March 1999, 31 March 1998 and 31 March 1997 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 on pages 97 to 99.

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

London

25 MAY 1999