

Additional information for shareholders

Cautionary statement regarding forward-looking statements

Certain statements in this annual report 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: BT's strategy and its ability to achieve it; the benefits and advantages of the restructuring; BT's debt reduction plans; BT's credit ratings; the plans to demerge BT Wireless, the structure of the demerger and the composition of the demerged group; BT's plans regarding Yell; BT's plans regarding Concert; growth of, and opportunities available in, the communications industry and BT's positioning to take advantage of those opportunities; expectations regarding competition, prices and growth; expectations regarding the convergence of technologies; expectations regarding the future of the mobile data market; BT's network development and expansion plans; plans for the launch of new products and services; expectations regarding participation in bids for third-generation (3G) licences outside the United Kingdom; the impact of regulatory initiatives on operations, including the regulation of the UK fixed wholesale and retail businesses; BT's possible or assumed future results of operations and/or those of its associates and joint ventures; capital expenditure and investment plans; adequacy of capital; financing plans; and those preceded by, followed by, or that include the words "believes", "expects", "anticipates", "intends" or similar expressions.

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 lines of business; future regulatory actions and conditions in its operating areas, including competition from others in the United Kingdom and other international communications markets; selection by BT and its lines of business of the appropriate trading and marketing models for its products and services; the costs associated with deploying GPRS technology and building 3G networks and the speculative nature of future revenues and earnings streams from these investments; technological innovations, including the cost of developing new products and the need to increase expenditures for improving the quality of service; the anticipated benefits and advantages of new technologies not being realised; developments in the convergence of technologies; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs; the timing of entry and profitability of BT and its lines of business in certain communication markets; significant changes in market shares for BT and its principal products and services; fluctuations in foreign currency exchange rates and interest rates; to the extent that BT chooses to sell assets or minority interests in its subsidiaries, prevailing market levels for such sales; and general financial market conditions affecting BT's ability to succeed with its restructuring. Certain of these factors are discussed in more detail elsewhere in this annual report including, without limitation, in "Risk Factors".

Background

Telephone services in almost all of the UK were, until 1981, provided by the Post Office, which was a government department until 1969 when it was established as a state public corporation. In 1981, the postal and telecommunications services of the Post Office became the responsibility of two separate corporations, with British Telecommunications – under the trading name of British Telecom – taking over the telecommunications business.

As a result of the Telecommunications Act, which received Royal Assent in 1984, the company was incorporated in the United Kingdom under the Companies Acts 1948 to 1981 on 1 April 1984 as a public limited company wholly owned by HM Government of the United Kingdom. The transfer of property, rights and liabilities of the corporation to British Telecommunications plc was made on 6 August 1984.

In November 1984, HM Government offered 3,012 million ordinary shares (50.2% of the total issued ordinary shares) to the public. The share sale was fully subscribed. British Telecom shares made their debut on the London Stock Exchange on 3 December 1984.

British Telecommunications plc has been trading as BT since April 1991.

Additional information for shareholders

In December 1991, HM Government sold over half its remaining shares in BT, retaining a holding of about 22%. It sold this residual holding in July 1993. Subsequently, in September 1997, HM Government redeemed at par a special rights redeemable preference share to which certain special rights attached.

In 1985, Cellnet was launched as a joint venture between British Telecom and Securicor which held 40% of the company. BT acquired full control of Cellnet (now BT Cellnet) by acquiring Securicor's minority holding in July 1999.

In July 1998, BT and AT&T launched Concert, a 50/50 joint venture serving customers around the world. BT and AT&T transferred their trans-border assets and operations to Concert in January 2000.

BT's registered number is 1800000 and its registered office address is 81 Newgate Street, London EC1A 7AJ. The company's agent in the USA is Jan Vinokour, 350 Madison Avenue, New York, NY 10017.

Listings

The principal listing of BT's ordinary shares is on the London Stock Exchange. The shares are also listed on the Tokyo Stock Exchange. American Depositary Shares (ADSs), each representing 10 ordinary shares, have been issued by Morgan Guaranty Trust Company of New York, as Depositary for the American Depositary Receipts (ADRs) evidencing the ADSs, and are listed on the New York Stock Exchange. ADSs also trade, but are not listed, on the London Stock Exchange. Trading on the New York Stock Exchange is under the symbol "BTY". BT shares are traded on the Tokyo Stock Exchange under the Code "9484".

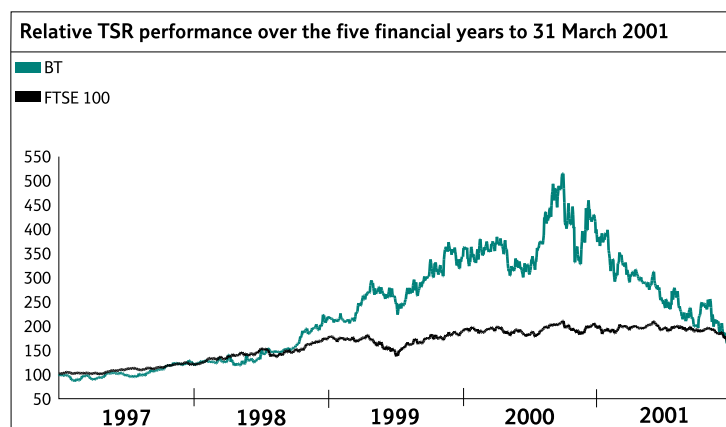
Share and ADS prices

| | Pence per ordinary share | | US\$ per ADS | |
|---------------------------------|--------------------------|-----------|--------------|--------|
| | High pence | Low pence | High \$ | Low \$ |
| Year ended 31 March | | | | |
| 1997 | 461½ | 326½ | 73½ | 50¼ |
| 1998 | 685 | 379½ | 113⅞ | 60⅞ |
| 1999 | 1,118½ | 630 | 179⅞ | 102¼ |
| 2000 | 1,513 | 889 | 244½ | 147⅞ |
| 2001 | 1,172 | 469 | 186 | 68¾ |
| Year ended 31 March 2000 | | | | |
| 1 April – 30 June 1999 | 1,137 | 970 | 181⅞ | 159 |
| 1 July – 30 September 1999 | 1,151 | 889 | 184⅞ | 147⅞ |
| 1 October – 31 December 1999 | 1,513 | 906½ | 244½ | 153 |
| 1 January – 31 March 2000 | 1,423 | 964 | 241¼ | 152½ |
| Year ended 31 March 2001 | | | | |
| 1 April – 30 June 2000 | 1,172 | 854 | 186 | 127 |
| 1 July – 30 September 2000 | 932 | 711 | 141 | 107⅞ |
| 1 October – 31 December 2000 | 808 | 570 | 119 | 84⅞ |
| 1 January – 31 March 2001 | 729 | 469 | 109½ | 68¾ |
| Month | | | | |
| November 2000 | 790 | 609 | 114¾ | 86⅞ |
| December 2000 | 688½ | 570 | 101¼ | 84⅞ |
| January 2001 | 726 | 560 | 109½ | 87⅞ |
| February 2001 | 729 | 567½ | 109¼ | 84¾ |
| March 2001 | 588 | 469 | 86½ | 68¾ |
| April 2001 | 595 | 479 | 89¾ | 68⅞ |

The prices are the highest and lowest closing middle market prices for BT ordinary shares, as derived from the Daily Official List of the London Stock Exchange and the highest and lowest sales prices of ADSs, as reported on the New York Stock Exchange composite tape.

Fluctuations in the exchange rate between the pound sterling and the US dollar affect the dollar equivalent of the pound sterling price of the company's ordinary shares on the London Stock Exchange and, as a result, are likely to affect the market price of the ADSs on the New York Stock Exchange.

Total shareholder return



Total Shareholder Return (TSR) is the measure of the returns that a company has provided for its shareholders and is, therefore, a good indicator of a company's overall performance. The TSR indices on the above graph are the product of share price movement, plus gross dividends reinvested in the shares to July 1997 and net dividends after that date.

Analysis of shareholdings

| Size of shareholding at 31 March 2001 | Number of shareholders | Percentage of total | Ordinary shares of 25p each | |
|--|---------------------------|------------------------|--|------------------------|
| | | | Number of shares held (millions) | Percentage of total |
| 1 – 399 | 800,412 | 44.7 | 167 | 2.6 |
| 400 – 799 | 518,649 | 29.0 | 280 | 4.3 |
| 800 – 1,599 | 315,693 | 17.6 | 344 | 5.2 |
| 1,600 – 9,999 | 150,005 | 8.4 | 404 | 6.2 |
| 10,000 – 99,999 | 4,022 | 0.2 | 97 | 1.5 |
| 100,000 – 999,999 | 1,296 | 0.1 | 459 | 6.9 |
| 1,000,000 – 4,999,999 | 380 | – | 837 | 12.7 |
| 5,000,000 and above (a),(b),(c) | 187 | – | 3,991 | 60.6 |
| Total | 1,790,644 | 100.0 | 6,579 | 100.0(d) |

(a) 19 million shares were held in trust by Ilford Trustees (Jersey) Limited for allocation to employees under the employee share schemes.

(b) Under the BT Employee Share Ownership Scheme, 21 million shares were held in trust on behalf of 121,210 participants who were beneficially entitled to the shares. 60 million shares were held in the BT EasyShare corporate nominee service on behalf of 106,049 beneficial owners.

(c) Approximately 109 million shares were represented by ADSs and a further 9 million shares were held by a nominee of the Tokyo Stock Exchange on behalf of investors. Analysis by size of holding is not available for these holdings.

(d) 17.5% of the shares were in 1,730,672 individual holdings, of which 153,056 were joint holdings, and 82.5% of the shares were in 59,972 institutional holdings.

So far as the company is aware, no person is the beneficial owner of more than 5% of the company's ordinary shares, nor is the company directly or indirectly owned or controlled by another corporation or by HM Government or any other foreign government or by any other natural or legal person severally or jointly. There are no arrangements known to the company the operation of which may at a subsequent date result in a change in control of the company.

At 17 May 2001, there were 6,585,266,841 ordinary shares outstanding. At the same date, approximately 11 million ADSs (equivalent to 110 million ordinary shares, or approximately 1.7% of the total number of ordinary shares outstanding on that date) were outstanding and were held by 3,012 record holders of ADRs.

Additional information for shareholders

CREST: London Stock Exchange settlement system

The company's ordinary shares are settled in CREST, the computerised system for settling sales and purchases of shares. CREST is a voluntary system which enables shareholders, if they wish, to hold and transfer their shareholdings electronically rather than by paper. Shareholders who wish to retain their certificates are able to do so.

Individual savings accounts (ISAs)

Information about investing in BT shares through an ISA may be obtained from Halifax Share Dealing Limited, Westbank, Water Lane, Leeds LS11 5TL (telephone 0870 242 5588). ISAs are also offered by other organisations.

Dividends

The company has, since shortly after its incorporation in 1984, paid interim dividends annually in February and final dividends in September. The interim dividend we paid in February 2001 was at the same rate as in the previous year. However, 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 31 March 2001. In addition, the company has announced that there will be no interim dividend for the year ending 31 March 2002.

Future dividends, if any, will depend on the progress of the new companies created by our 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.

The dividends paid or payable on BT shares and ADSs for the last five years are shown in the following table. The dividends on the ordinary shares exclude the associated tax credit. The dividends on the ADSs paid before 5 April 1999 include the associated UK tax credit available to certain beneficial owners who are resident in the United States or Canada for tax purposes, but before deduction of UK withholding taxes. The amounts shown are not those that were actually paid to holders of ADSs. For the tax treatment of dividends, which changed for dividends paid on or after 6 April 1999, see *Taxation of dividends* below. Dividends have been translated from pounds sterling into US dollars using exchange rates prevailing on the date the ordinary dividends were paid.

| Years ended 31 March | Per ordinary share | | | Per ADS | | | Per ADS | | |
|----------------------|--------------------|-------------|-------------|-----------|---------|---------|--------------|------------|------------|
| | Interim pence | Final pence | Total pence | Interim £ | Final £ | Total £ | Interim US\$ | Final US\$ | Total US\$ |
| 1997(a) | 7.90 | 11.95 | 19.85 | 0.987 | 1.494 | 2.481 | 1.582 | 2.391 | 3.973 |
| 1998(b) | 7.55 | 11.45 | 19.00 | 0.944 | 1.431 | 2.375 | 1.540 | 2.400 | 3.940 |
| 1999(b) | 8.10 | 12.30 | 20.40 | 1.012 | 1.366 | 2.378 | 1.644 | 2.202 | 3.846 |
| 2000(b) | 8.70 | 13.20 | 21.90 | 0.870 | 1.320 | 2.190 | 1.529 | 2.039 | 3.568 |
| 2001(b) | 8.70 | – | 8.70 | 0.870 | – | 0.870 | 1.397 | – | 1.397 |

(a) In addition, a special dividend of 35p per share, excluding the associated tax credit, or £4.375 (US\$7.002) per ADS, including the UK associated tax credit, was paid at the same time as the final dividend for the 1997 financial year.

(b) The dividends for the 1998, 1999, 2000 and 2001 financial years include an adjustment to take account of the effect of the 1997 special dividend.

As dividends paid by the company are in pounds sterling, exchange rate fluctuations will affect the US dollar amounts received by holders of ADSs on conversion by the Depositary of such cash dividends.

Dividend mandate

Any shareholder wishing dividends to be paid directly into a bank or building society account should contact the Registrar for a dividend mandate form. Dividends paid in this way will be paid through the Bankers Automated Clearing System (BACS). Alternatively, a form may be downloaded from the internet at www.groupbt.com/investorcentre

Dividend investment plan

The dividend investment plan replaced the share dividend plan for shareholders following the 1999 interim dividend. Under the dividend investment plan, cash from participants' dividends is used to buy further BT shares in the market.

Shareholders could elect to receive additional shares in lieu of a cash dividend for the following dividends:

| | Date paid | Price per share pence |
|--------------|-------------------|-----------------------|
| 1999 final | 20 September 1999 | 970.1 |
| 2000 interim | 14 February 2000 | 991.5 |
| 2000 final | 18 September 2000 | 809.6 |
| 2001 interim | 12 February 2001 | 621.8 |

Global Invest Direct

Details of the Morgan Guaranty Trust Company's direct purchase plan, Global Invest Direct, including reinvestment of dividends, are available from Morgan Guaranty Trust Company of New York on 1 800 749 1687 (toll free in the United States) or +1 781 575 4328 (from outside the United States), or on written request to the Depository.

Results announcements

Expected announcements of results:

| | |
|---|-----------------|
| 1st quarter | 26 July 2001 |
| 2nd quarter and half year | 8 November 2001 |
| 3rd quarter and nine months | February 2002 |
| 4th quarter and full year | May 2002 |
| 2002 annual report and accounts published | June 2002 |

ShareGift

The Orr Mackintosh Foundation operates a charity share donation scheme for shareholders with small parcels of shares whose value makes it uneconomic to sell them. Details of the scheme are available on the ShareGift internet site www.sharegift.org, or can be obtained from the BT Shareholder Helpline.

Exchange rates

BT publishes its consolidated financial statements expressed in pounds sterling. The following tables detail certain information concerning the exchange rates between pounds sterling and US dollars based on the noon buying rate in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate).

| | Years ended 31 March | | | | | |
|-------------|----------------------|---------------|--------------|---------------|------------|------------|
| | 1997 | 1998 | 1999 | 2000 | 2001 | |
| Period end | 1.64 | 1.68 | 1.61 | 1.59 | 1.42 | |
| Average (a) | 1.60 | 1.65 | 1.65 | 1.61 | 1.47 | |
| High | 1.71 | 1.70 | 1.72 | 1.68 | 1.60 | |
| Low | 1.49 | 1.58 | 1.60 | 1.55 | 1.40 | |
| | Month | | | | | |
| | November 2000 | December 2000 | January 2001 | February 2001 | March 2001 | April 2001 |
| High | 1.45 | 1.50 | 1.50 | 1.48 | 1.47 | 1.45 |
| Low | 1.40 | 1.44 | 1.46 | 1.44 | 1.42 | 1.42 |

(a) The average of the Noon Buying Rates in effect on the last day of each month during the relevant period.

On 17 May 2001, the most recent practicable date for this annual report, the Noon Buying Rate was US\$1.43 to £1.00.

Additional information for shareholders

Memorandum and Articles of Association

The following is a summary of the principal provisions of BT's memorandum and articles of association ("Memorandum" and "Articles"), a copy of which has been filed with the Registrar of Companies.

Memorandum

The Memorandum states 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.

Articles

(a) Voting rights

In the following description of the rights attaching to the shares in the company, 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 (the electronic settlement system in the UK).

Subject to the restrictions described below, on a show of hands, every shareholder present at any general meeting has one vote and, on a poll, every shareholder present in person or by proxy has one vote for each share which they hold or represent.

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 entitled to vote (or their proxies) and who have, between them, at least 10% of the total votes of all shareholders who have the right to vote at the meeting.

No person is, unless the Board decides otherwise, entitled to attend or vote at any general meeting or to exercise any other right conferred by being a shareholder at or in relation to meetings of the company in respect of any shares held by them if they or any person appearing to be interested in those shares have been sent a notice under section 212 of the Companies Act 1985 (which confers upon public companies the power to require information with respect to interests in their voting shares) and they or any 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 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, 1985 (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 3% 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% 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% 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% 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 must effect the disposal on the terms as 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 a notice to any person if it does not know that person's identity or address. Not delivering a notice in such case and any accidental error in or failure to give notice to a person to whom notice is required to be sent will not prevent the implementation of or invalidate any procedure under the relevant Article. Any resolution or determination of, or decision or exercise of any discretion or power by, the Board is conclusive.

Certain specified shareholders, including the ADS 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% 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).

The company 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. 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 and 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 may be forfeited and will belong to the Company unless the Directors decide otherwise.

BT can stop paying dividends if payments for two dividends in a row are sent back or not cashed or have not been able to be made. BT must start paying dividends again if the shareholder or a person entitled to the shares by transmission claims them.

Additional information for shareholders

(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 group of shareholders. Under general law the holders of BT shares will be entitled to participate in any surplus assets in a winding up in proportion to their shareholdings, as BT has only one class of shares.

(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 another 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 Uncertificated Securities Regulations 1995 (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, they 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.

The Board can decide to suspend the registration of transfers, for up to 30 days a year, by closing the register of shareholders. This register must not be closed without the consent of the operator of a relevant system (as defined in the Regulations), in the case of uncertificated shares.

(h) Untraced shareholders

BT may sell any shares after advertising its intention and waiting for three months if the shares have been in issue for at least 12 years, during that period at least three dividends have become payable on them and have not been claimed and BT has not heard from the shareholder or any person entitled to the dividends by transmission. The net sale proceeds belong to BT, but it must pay those proceeds to the former shareholder or the person entitled to them by transmission if that shareholder, or that other person, asks for them.

(i) General meetings of shareholders

Every year BT must hold an annual general meeting. The Board can call an extraordinary general meeting at any time and, under general law, it must call one on a shareholders' requisition.

(j) Limitations on rights of non-resident or foreign shareholders

The only limitation imposed by the Articles on the rights of non-resident or foreign shareholders is that 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.

(k) Directors

Directors' remuneration

Excluding remuneration referred to below, each director will 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 fees to a director who holds an executive position; acts as chairman or deputy chairman; serves on a Board committee or board at the request of the Board; or performs any other services which the Board considers extends beyond the ordinary duties of a director.

The Board may grant pensions or other benefits to, among others, any director or former director or persons connected with them. However, BT can only provide these 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.

Directors' votes

A director need not be a shareholder, but a director who is not a shareholder can still attend and speak at shareholders' meetings.

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 Articles.

Subject to the 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.

Directors' interests

If the legislation allows and the director has disclosed the nature and extent of the interest to the Board, the director can:

- (i) have any kind of interest in a contract with or involving BT (or in which BT has an interest or with or involving another company in which BT has an interest);
- (ii) have any kind of interest in a company in which BT has an interest (including holding a position in that company or being a shareholder of that company);
- (iii) hold a position (other than auditor) in BT or another company in which BT has an interest on terms and conditions decided by the Board; and
- (iv) alone (or through some firm with which the director is associated) do paid professional work (other than as auditor) for BT or another company in which BT has an interest on terms and conditions decided by the Board.

A director does not have to hand over to BT any benefit received or profit made as a result of anything permitted to be done under the Articles.

When a director knows that they are interested in a contract with BT they must tell the other directors.

Retirement of directors

Provisions of the legislation which, read with the 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.

Additional information for shareholders

Directors' borrowing powers

To the extent that the legislation and the 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 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.

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 another member of the 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 a provision under which a member of the group has an obligation or entitlement which is, or may be, material to BT or such other member of the group.

(i) Viag Interkom

On 16 August 2000, the company, 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 Viag Interkom 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 to BT.

The purchase prices for E.ON's 45% share and Telenor's 10% 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 for 12 months.

The agreement with Telenor contains certain indemnities granted by BT to Telenor.

(ii) Japan Telecom

A sale and purchase agreement dated 2 May 2001 among 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 BT's 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 in Japan. 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 warranties and indemnities in favour of Vodafone. These largely expire on 30 June 2002, however certain limited tax and title warranties survive indefinitely. The agreement is conditional on certain matters, including the need for consent from the Bank of Japan, and the parties have certain termination rights.

(iii) Airtel

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. (“Airtel”) 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.

Taxation (US Holders)

This is a summary only of the principal US federal income tax and UK tax consequences to beneficial owners of ADSs who either are resident in the United States or hold ordinary shares or ADSs as assets effectively connected with a US trade or business (US Holders). It is not a complete analysis or listing of all potential tax consequences of the purchase, ownership and disposal of ordinary shares or ADSs.

Investors are advised to consult their tax advisers with respect to the tax consequences of their holdings, including the consequences under applicable state and local laws. The statements of UK and US tax laws and practices set out below are based on the laws in force and as interpreted by the relevant taxation authorities as of the date of this annual report. The statements are subject to changes occurring after that date in UK or US law or practice, in the interpretation thereof by the relevant taxation authorities, or in any double taxation convention between the United States and the UK.

In particular, this summary is based on the current convention between the United States and the UK for the avoidance of double taxation with respect to taxes on income and capital gains (the Treaty) and the US Internal Revenue Code of 1986, as amended. The US and the UK have entered into negotiations with respect to a new US-UK tax treaty, the provisions of which ultimately may modify certain aspects of the following discussion.

Taxation of dividends

For dividends paid on or before 5 April 1999, US Holders were generally entitled to receive the cash dividend plus a Treaty payment from the Inland Revenue of one quarter of the dividend, subject to a UK withholding tax of 15% of the aggregate amount paid. As an example for illustration purposes only, a US Holder who was entitled to a dividend of £80 was also entitled to a Treaty payment of £20, reduced by the withholding tax of 15% on the gross amount of £100, i.e. £15, leaving a net cash payment of £85. The full dividend plus the full Treaty payment including the UK tax withheld was taxable income for US purposes, and the US tax withheld generally was available as a US credit or deduction.

For dividends paid on or after 6 April 1999, the Treaty payment reduces to one ninth of the dividend (i.e. one tenth of the gross payment). As a result of the UK withholding tax (which cannot exceed the amount of the hypothetical Treaty payment), US Holders will no longer receive any Treaty payment. In the above example, the cash dividend would be £80, and the hypothetical Treaty payment would be £8.89 (one ninth of £80). However, since the UK withholding tax (15% of £88.89), would exceed the amount of the hypothetical Treaty payment, no Treaty payment will be made and the US Holder will receive only the cash dividend (here, £80). A US holder will be taxable in the US on the full dividend and full hypothetical Treaty payment (£88.89), and will be treated as having paid a foreign tax equal to the hypothetical Treaty payment (here, £8.89). The foreign tax deemed paid generally will be available as a US credit or deduction.

For US federal income tax purposes, a distribution will be treated as ordinary dividend income to the extent paid out of our current or accumulated earnings and profits, as determined for US tax purposes, based on the US dollar value of the distribution on the date it is actually or constructively received (calculated by reference to the spot rate on the relevant date). Distributions by us in excess of our current and accumulated earnings and profits will be treated first as a return of capital to the extent of the US Holder’s basis in the ordinary shares and thereafter as capital gain. For foreign tax credit limitation purposes, dividends paid by us will be income from sources outside the United States. Dividends paid by us will not be eligible for the US dividends received deduction.

US Holders are urged to consult their own tax advisers concerning whether they are eligible for benefits under the Treaty, whether, and to what extent, a foreign tax credit will be available with respect to dividends received from us and the treatment of any foreign currency gain or loss on any pounds sterling received with respect to ordinary shares that are not converted into US dollars on the date the pounds sterling are actually or constructively received.

Additional information for shareholders

Taxation of capital gains

Unless a US resident carries on a trade through a branch or agency in the UK, and the disposal of ordinary shares and/or ADSs is related to the activities of that trade, UK capital gains tax is not charged on US residents who dispose of ordinary shares and/or ADSs.

For US federal income tax purposes, a US Holder will recognise a capital gain or loss on the sale or other disposition of ordinary shares or ADSs (if the ordinary shares or ADSs disposed of are held as capital assets) in an amount equal to the difference between the US Holder's adjusted tax basis in the ordinary shares and the amount realised on the disposition. Such gain or loss will be US source gain or loss, and will be treated as long-term capital gain or loss if the ordinary shares have been held for more than one year. The deductibility of capital losses is subject to significant limitations. Capital gains of an individual US Holder are subject to US federal income tax at preferential rates if specified holdings periods are met.

US information reporting and back up withholding

Dividends paid on and proceeds received from the sale or disposition of ordinary shares or ADSs may be subject to information reporting to the IRS and back up withholding at a 31% rate. Certain exempt recipients (such as corporations) are not subject to these information reporting requirements. Back up withholding will not apply, however, to a holder who provides a correct taxpayer identification number or certificate of foreign status and makes any other required certification or who is otherwise exempt. US persons who are required to establish their exempt status generally must file IRS Form W-9 (Request for Taxpayer Identification Number and Certification). Non-US holders generally will not be subject to US information reporting or back up withholding. However, such holders may be required to provide certification of non-US status in connection with payments received in the United States or through certain US-related financial intermediaries. Finalised Treasury regulations have generally expanded the circumstances under which US information reporting and back up withholding may apply.

Amounts withheld as back up withholding may be credited against a holder's US federal income tax liability. A holder may obtain a refund of any excess amounts withheld under the back up withholding rules by filing the appropriate claim for refund with the IRS and furnishing any required information.

UK stamp duty

A transfer for value of an ordinary share will generally be subject to UK stamp duty or to UK stamp duty reserve tax. No UK stamp duty will be payable on the transfer of an ADS, provided that the separate instrument of transfer is not executed in, and always remains outside, the UK.

Inheritance and gift taxes

US-domiciled holders of ordinary shares and ADSs generally will not be subject to UK inheritance tax on a gift of ordinary shares and/or ADSs if the gift would be subject to US federal gift tax. Similarly, ordinary shares and/or ADSs passing on the death of a US-domiciled shareholder generally will not be subject to UK inheritance tax if the estate would be subject to US estate tax.

Exchange controls and other limitations affecting security holders

There are currently no government laws, decrees or regulations in the United Kingdom that restrict the export or import of capital, including, but not limited to, UK foreign exchange control restrictions, or that affect the remittances of dividends or other payments to non-resident holders of the company's ordinary shares, except as otherwise described in *Taxation (US Holders)* above and except in respect of the government of, or any resident of, Iraq or any person treated as so resident. There are no limitations under the laws of the United Kingdom restricting the right of non-residents to hold or to vote shares in the company.

Publications

BT produces a series of reports on the company's financial, economic, social and environmental performance. Most of these reports, which are available to shareholders on request, can be accessed on the internet at www.groupbt.com/investorcentre

| Document | Publication date |
|---|----------------------------------|
| Annual Review including summary financial statement | June |
| Annual Report and Form 20-F | June |
| Report for Shareholders | February and September |
| Quarterly results releases | February, May, July and November |
| Current Cost Financial Statements for the Businesses and Activities and Statement of Standard Services (as required by Oftel) | September |
| Social and Environment Report | June |
| Statement of Business Practice | (a) |
| Quality of Service Report | May and November |

(a) First issued in June 1999.

For printed copies, when available, contact the BT Shareholder Helpline on **Freephone 0808 100 4141** or, alternatively, contact **The Registrar** in the UK, **BT North America Inc.** in the USA or **The Toyo Trust & Banking Co. Limited** in Japan at the addresses on page 156.

Additional information for shareholders

The Registrar

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Shareholder enquiries

Lloyds TSB Registrars maintain BT's share register and the separate BT EasyShare Service and BT Employee Share Ownership Scheme registers. They also provide a BT Shareholder Helpline service.

Shareholders should contact the Registrar (details above) if they have any enquiries about their shareholding.

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A full list of BT contacts, and an electronic feedback facility, is available at www.bt.com/talk