

## 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 relate to analyses and other information which are based on forecasts of future results and estimates of amounts not yet determinable. These statements include, without limitation, those concerning: BT's strategy and its ability to achieve it; BT's debt reduction plans; BT's credit ratings; BT's plans regarding the re-integration of Concert; growth of, and opportunities available in, the communications industry and BT's positioning to take advantage of those opportunities; expectations regarding competition, market shares, prices and growth; expectations regarding the convergence of technologies; BT's network development and expansion plans; plans for the launch of new products and services; network performance and quality; 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; BT's future dividend policy; capital expenditure and investment plans; adequacy of capital; financing plans; demand for and access to broadband and the promotion of broadband by third party service providers; 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 UK 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; 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 performance. 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, British Telecommunications plc was incorporated in England and Wales under the Companies Acts 1948 to 1981 on 1 April 1984 as a public limited company wholly owned by the UK Government. The transfer of property, rights and liabilities of the corporation to British Telecommunications plc was made on 6 August 1984.

In November 1984, the UK 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. From April 1991, British Telecommunications plc traded as BT.

In December 1991, the UK 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, the UK 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 O2 UK – part of mmO2 plc) by acquiring Securicor's minority holding in November 1999.

In January 2000, BT and AT&T established Concert as a 50/50 joint venture serving customers around the world and transferred their trans-border assets and operations to Concert. On 1 April 2002, BT completed the unwind of Concert, which involved the return of Concert's businesses, customer accounts and networks to the two parent companies.

BT Group was formed when the mmO2 business, comprising what had been BT's mobile activities in the UK, the Netherlands, Germany and the Republic of Ireland, was demerged on 19 November 2001. British Telecommunications plc's shares ceased trading on the London, New York and Tokyo stock exchanges on 16 November 2001. BT Group plc's shares commenced trading on the London and New York stock exchanges on 19 November 2001.

BT Group was incorporated in England and Wales on 30 March 2001 as Newgate Telecommunications Limited with the registered number 4190816. The company changed its name to BT Group plc on 11 September 2001. Following the demerger of mmO2 in November 2001, the continuing activities of BT were transferred to BT Group.

BT Group's 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 Group's ordinary shares is on the London Stock Exchange. American Depositary Shares (ADSs), each representing 10 ordinary shares, have been issued by JPMorgan Chase Bank, 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".

### Share and ADS prices<sup>a</sup>

	Pence per ordinary share		US\$ per ADS	
	High pence	Low pence	High \$	Low \$
<b>Years ended 31 March</b>				
1998	480.31	266.10	85.25	45.57
1999	784.27	441.74	134.71	76.55
2000	1,060.88	623.35	183.04	110.52
2001	821.78	328.85	139.25	51.47
2002	420.71	215.75	67.19	30.60
<b>Year ended 31 March 2001</b>				
1 April – 30 June 2000	821.78	598.81	139.25	95.08
1 July – 30 September 2000	653.50	498.54	105.56	80.15
1 October – 31 December 2000	566.55	399.67	89.09	63.54
1 January – 31 March 2001	511.16	328.85	81.98	51.47
<b>Year ended 31 March 2002</b>				
1 April – 30 June 2001	420.71	320.17	67.19	44.39
1 July – 30 September 2001	389.08	253.01	53.86	37.73
1 October – 31 December 2001	292.84	242.27	42.25	35.00
1 January – 31 March 2002	285.00	215.75	40.36	30.60
<b>Month</b>				
November 2001	290.00	242.27	42.25	35.80
December 2001	276.00	246.50	39.15	35.00
January 2002	263.50	215.75	38.47	30.60
February 2002	264.00	227.00	37.64	32.05
March 2002	285.00	255.00	40.36	36.70
April 2002	284.00	253.00	40.75	36.50

<sup>a</sup>The pre-19 November 2001 prices shown have been adjusted for the rights issue and demerger that occurred in the 2002 financial year.

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.

### Capital gains tax (CGT)

The rights issue in June 2001 and the demerger of mmO2 in November 2001 adjusted the value for capital gains tax purposes of BT shares.

### Rights issue

An explanatory note on the effects of the rights issue on the CGT position relating to BT shareholdings is available from the Shareholder Helpline (see page 154).

## Demerger of mmO2

The confirmed official opening prices for BT Group and mmO2 shares following the demerger were 285.75p and 82.75p, respectively. This means that, of the total (combined) value of 368.50p, 77.544% is attributable to BT Group and 22.456% to mmO2. Accordingly, for CGT calculations, the base cost of your BT Group shares and mmO2 shares is calculated by multiplying the acquisition cost of your BT shareholding by 77.544% and 22.456%, respectively.

## Analysis of shareholdings

Size of shareholding at 31 March 2002	Number of shareholders	Percentage of total	Ordinary shares of 5p each	
			Number of shares held (millions)	Percentage of total
1 – 399	695,260	40.8	147	1.7
400 – 799	506,290	29.7	281	3.2
800 – 1,599	309,893	18.2	345	4.0
1,600 – 9,999	186,213	10.9	524	6.0
10,000 – 99,999	5,187	0.3	111	1.3
100,000 – 999,999	1,276	0.1	471	5.4
1,000,000 – 4,999,999	447	0.0	987	11.4
5,000,000 and above <sup>a,b,c</sup>	225	0.0	5,805	67.0
<b>Total</b>	<b>1,704,791</b>	<b>100.0</b>	<b>8,671</b>	<b>100.0<sup>d</sup></b>

<sup>a</sup>25 million shares were held in trust by Ilford Trustees (Jersey) Limited for allocation to employees under the employee share schemes.

<sup>b</sup>Under the BT Employee Share Ownership Scheme, 21 million shares were held in trust on behalf of 121,949 participants who were beneficially entitled to the shares. 131 million shares were held in the BT Group EasyShare corporate nominee service on behalf of 118,891 beneficial owners.

<sup>c</sup>159 million shares were represented by ADSs. Analysis by size of holding is not available for this holding.

<sup>d</sup>14.8% of the shares were in 1,656,830 individual holdings, of which 148,785 were joint holdings, and 85.2% of the shares were in 47,961 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 the UK 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 16 May 2002, there were 8,670,734,162 ordinary shares outstanding. At the same date, approximately 16.2 million ADSs (equivalent to 162 million ordinary shares, or approximately 1.87% of the total number of ordinary shares outstanding on that date) were outstanding and were held by 2,420 record holders of ADRs.

## Dividends

Since shortly after its incorporation in 1984, British Telecommunications plc paid interim dividends annually in February and final dividends in September. The interim dividend 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 did not recommend the payment of a final dividend to shareholders for the year ended 31 March 2001. In addition, the company announced that there would be no interim dividend for the year ending 31 March 2002.

The Board has proposed a final dividend in respect of the year ended 31 March 2002, to be paid on 9 September 2002 to shareholders on the register on 9 August 2002, and expects to resume regular payments thereafter. The level of dividend that BT expects to pay in the future will be dependent on the future performance of the business.

The dividends paid or payable on BT shares and ADSs for the last five years are shown in the following table. The dividends shown include an adjustment to take account of the effect of a special dividend of 35 pence per share, excluding the associated tax credit, or £4.375 (US\$7.002) per ADS, including the UK associated tax credit, which was paid at the same time as the final dividend for the 1997 financial year. 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\$
1998	7.55	11.45	19.00	0.944	1.431	2.375	1.540	2.400	3.940
1999	8.10	12.30	20.40	1.012	1.366	2.378	1.644	2.202	3.846
2000	8.70	13.20	21.90	0.870	1.320	2.190	1.529	2.039	3.568
2001	8.70	–	8.70	0.870	–	0.870	1.397	–	1.397
2002	–	2.00	2.00	–	– <sup>a</sup>	– <sup>a</sup>	–	– <sup>a</sup>	– <sup>a</sup>

<sup>a</sup>Qualifying holders of ADSs on record as of 9 August 2002 are entitled to receive the final dividend which will be paid on 16 September 2002, subject to approval at the annual general meeting. The US dollar amount of the final dividend of 20 pence per ADS to be paid to holders of ADSs will be based on the exchange rate in effect on 9 September 2002, the date of payment to holders of ordinary shares.

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 Depository 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.btplc.com/investorcentre](http://www.btplc.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 Group 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

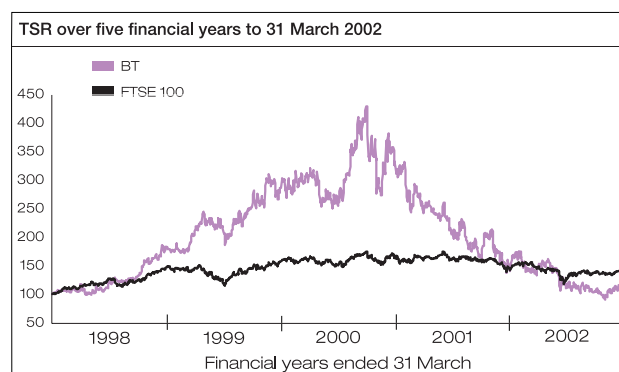
Details of the direct purchase plan run by the ADR Depository, JPMorgan Chase Bank, Global Invest Direct, including reinvestment of dividends, are available from JPMorgan Chase Bank on 1 800 749 1687 (toll free within the USA) or +1 781 575 4328 (from outside the USA), or on written request to the ADR Depository.

### Total shareholder return

Total shareholder return (TSR) is the measure of the returns that a company has provided for its shareholders, reflecting share price movements and assuming reinvestment of dividends. It is, therefore, a good indicator of a company's overall performance.

Since the demerger on 19 November 2001, BT Group's share price rose slightly from 278p to close at 280p on 31 March 2002. In the period, BT Group's TSR was in line with the FTSE 100 index at 0.7%. This was significantly better than the performance of the FTSE 350 UK telco index (negative 27.1%) and the FTSE European 300 telecom services sector (negative 19.3%).

During the 2002 financial year, BT's TSR was 21.7% negative, while the FTSE 100 TSR was minus 4.0%. However, over the same period, BT outperformed the UK telco index (negative 35.1%) and the European telecom sector (negative 30.5%).



Over the last five years (as shown in the chart above), BT initially performed very strongly, but, like many stocks in the telecoms, media and technology (TMT) sector, suffered falls in its share price during the decline of the past two years. BT Group's TSR (as adjusted for the rights issue and the demerger) over the last five years was 16.4%, compared to a FTSE 100 TSR rise of 40.5%.

### Results announcements

Expected announcements of results:

1st quarter	25 July 2002
2nd quarter and half year	7 November 2002
3rd quarter and nine months	February 2003
4th quarter and full year	May 2003
2003 annual report and accounts published	June 2003

### Individual savings accounts (ISAs)

Information about investing in BT Group shares through an ISA may be obtained from Halifax Share Dealing Limited, Trinity Road, Halifax, W.Yorkshire HX1 2RG (telephone 0870 242 5588). ISAs are also offered by other organisations.

### 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](http://www.sharegift.org), or can be obtained from the 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	1998	1999	2000	2001	2002
Period end	1.68	1.61	1.59	1.42	<b>1.43</b>
Average <sup>a</sup>	1.65	1.65	1.61	1.47	<b>1.43</b>
High	1.70	1.72	1.68	1.60	<b>1.48</b>
Low	1.58	1.60	1.55	1.40	<b>1.37</b>

	Month					April 2002
	November 2001	December 2001	January 2002	February 2002	March 2002	
High	1.47	1.46	1.45	1.43	1.43	<b>1.46</b>
Low	1.41	1.42	1.41	1.41	1.41	<b>1.43</b>

<sup>a</sup>The average of the Noon Buying Rates in effect on the last day of each month during the relevant period.

On 16 May 2002, the most recent practicable date for this annual report, the Noon Buying Rate was US\$1.46 to £1.00.

### 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 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.

#### Articles

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 entered on 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).

#### (a) Voting rights

Subject to the restrictions described below, on a show of hands, every shareholder present in person or by proxy 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.

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% of the total votes of all shareholders who have the right to vote at the meeting.

No person is, unless the Board decide otherwise, 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 1985 (which confers upon public companies the power to require information with respect to interests in their voting shares) and he 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 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.

#### (b) 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 an 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.

#### (c) 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.

#### (d) 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 and on the dates and for the periods they decide. Fixed dividends will be paid on any class of shares 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 10 years after it was declared or became due for payment will be forfeited and will belong to the company unless the directors decide otherwise.

#### (e) Distribution of assets on winding up

If the company is wound up (whether the liquidation is voluntary, under supervision of the court or by the 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 Articles which could give them a liability.

#### (f) 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 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 decide. The transfer must have with it the share certificate for the shares to be transferred; any other evidence which the Board ask 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 decide 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 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. The 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.

**(g) 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 10 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.

**(h) General meetings of shareholders**

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

**(i) 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 or documents from BT must give the company an address within the UK to which they may be sent.

**(j) Directors**

**Directors' remuneration**

Excluding remuneration referred to below, each director will be paid such fees for his services as the Board decide, not exceeding £50,000 a year and increasing by the percentage increase of the UK 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 at the request of the Board; or performs any other services which the Board consider extend 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 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 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 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 prevent a person from being or becoming a director because that person has reached the age of 70 do not apply to the company.

At every annual general meeting any director who was elected or last re-elected a director at or before the annual general meeting held in the third year before the current year, shall retire by rotation. Any director appointed by the directors automatically retires at the next following annual general meeting. A retiring director is eligible for re-election.

### Directors' borrowing powers

To the extent that the legislation and the Articles allow, the Board can 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 the company's 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, net of amounts borrowed intra-group among other things, at any time does not exceed £35 billion.

### 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.

### 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 AS, 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 29 December 2000, Telenor group exercised its option pursuant to which BT Interkom Verwaltungs GmbH purchased Telenor AS's 10% share of the venture on 18 January 2001. On 15 January 2001, E.ON AG exercised its option pursuant to which BT Interkom Verwaltungs GmbH purchased E.ON AG's 45% share of the venture on 19 February 2001.

The purchase prices for E.ON's 45% share and Telenor AS's 10% share of the venture were €7.25 billion and €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 contained 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.

### 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 held 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 had controlling interests in the three regional J-Phone wireless operating companies, JC, JEC and JWC. The consideration for the transaction comprised a cash payment of £3.7 billion, and the assumption by Vodafone of £782 million of BT debt guarantees in favour of JT.

The sale of the subsidiaries which held BT's interests in JT and JPC (for £3.07 billion) was completed on 1 June 2001. The sale of BT's interests in JEC and JWC for the Euro equivalent of £650 million was completed on 12 July 2001, following the exercise of certain options over shares in JC, JEC and JWC, with the exercise price of approximately £380 million having been paid by BT.

The agreement contains certain standard warranties and indemnities in favour of Vodafone. These largely expire on 30 June 2002, although certain limited tax and title warranties survive indefinitely.

#### **Airtel**

A sale and purchase agreement dated 2 May 2001 between BT (Netherlands) Holdings BV, a subsidiary of BT and Vodafone, under which the BT subsidiary agreed to sell its entire interest in Airtel Móvil, S.A. to Vodafone. The sale was completed on 29 June 2001 for a consideration of £1.1 billion (paid in Euros).

#### **Yell**

On 25 May 2001, the following agreements were entered into, under which BT agreed to sell its classified advertising directory businesses in the UK and the USA:

- (i) umbrella agreement between Yell Ltd, BT Holdings Ltd, Yellow Pages BV, Marchprobe Ltd, Castaim Ltd, Yasmin Two (US) Inc. and BT;
- (ii) UK share sale agreement between BT Holdings Ltd and Marchprobe Ltd under which BT Holdings Ltd agreed to sell the share capital of Yellow Pages Sales Ltd to Marchprobe Ltd;
- (iii) UK business sale agreement between Yell Ltd, Castaim Ltd and Yasmin Two (US) Inc. under which Yell Ltd agreed to sell Yell Ltd's business and assets to Castaim Ltd and to sell Yell Ltd's US intellectual property rights to Yasmin Two (US) Inc; and
- (iv) US share sale agreement between Yellow Pages BV and Yasmin Two (US) Inc. under which Yellow Pages BV agreed to sell the share capital of Yellow Book USA, Inc. to Yasmin Two (US) Inc.

The umbrella agreement sets out the common terms which apply to the UK share sale agreement, the UK business sale agreement and the US share sale agreement. The umbrella agreement contains covenants restricting any member of the group from carrying on a competing printed classified directories business for twelve months from completion.

The share sale and business agreements contain standard warranties and indemnities in favour of Marchprobe Ltd, Castaim Ltd and Yasmin Two (US) Inc. The warranties expire on 30 June 2002.

As part of the consideration under the UK business sale agreement, Castaim Ltd also assumed responsibility for certain liabilities and obligations of the Yell business.

The sale of Yell was completed on 22 June 2001 for a consideration of £2.14 billion, comprising (i) £2 million as consideration for the issued shares of Yellow Pages Sales Ltd; (ii) £1,288 million in cash plus £100 million in interest bearing vendor loan notes and £100 million in deferred consideration (subject to reduction on ascertainment of the net assets) as consideration for the assets of Yell Ltd; (iii) £1 as consideration for the US intellectual property rights; and (iv) £650 million as consideration for the issued shares of Yellow Book USA, Inc. (subject to adjustment in respect of certain intra-group indebtedness and pursuant to the terms of the first amending agreement).

Following completion, Yell Ltd agreed a net asset adjustment with Castaim Ltd in respect of the assets of Yell Ltd, and Yellow Pages BV agreed a net asset adjustment with Yasmin Two (US) Inc. in respect of Yellow Book USA, Inc, which together resulted in the total purchase consideration received being reduced by approximately £140 million.

#### **Demerger Agreement**

On 18 September 2001, BT Group plc, British Telecommunications plc and mmO2 plc entered into a demerger agreement (the "Demerger Agreement") which set out the obligations of the parties in implementing the steps to achieve the demerger of mmO2 ("the Demerger").

Under this agreement, mmO2 agreed to transfer BT Group Investments to BT Group plc and, in exchange for that transfer, BT Group agreed to allot and issue BT Group shares to the mmO2 shareholders in satisfaction of the Demerger dividend (being the dividend declared by mmO2 of an amount equal to the book value of its shareholding in BT Group Investments) so that each mmO2 shareholder at the Demerger record time was entitled to receive one BT Group share for each mmO2 share then held. No party to the Demerger Agreement gave any representation, warranty or indemnity to the others and no party had any right to rescind the agreement.

#### **Separation Agreement**

On 18 September 2001, British Telecommunications plc, BT Group plc, mmO2 plc and O2 Limited entered into a separation agreement (the "Separation Agreement") relating to the Demerger. Under the Separation Agreement, it was agreed that mmO2 would have net debt (excluding trading balances) of approximately £500 million on 19 November 2001 (the "Demerger Effective Date"), including loan indebtedness to BT Group.

BT Group and mmO2 also agreed to allocate certain assets and liabilities and rights and obligations, in each case relating to the mmO2 business, between their respective groups and agreed, subject to certain limited exceptions, to indemnify each other against certain actual and contingent liabilities to the extent arising directly or indirectly out of their respective businesses. Furthermore, BT Group and mmO2 agreed to indemnify one another against certain liabilities arising

from certain incomplete, false or misleading information provided by either of BT Group or mmO2, or their respective groups, for inclusion in public documents. These indemnities apply indefinitely and are not subject to any financial limit.

mmO2 plc agreed that, after the Demerger Effective Date, it would seek to obtain a full and effective release of each relevant member of the BT Group from any guarantees, undertakings and indemnities which the BT Group member may have given in respect of the mmO2 group, including an undertaking of support in respect of Viag Interkom's licence obligations.

The Separation Agreement sets out the parties' agreement for the separation of the pensions arrangements of the BT Group and the mmO2 Group and also sets out an informal, non-binding dispute resolution procedure which BT Group and mmO2 have agreed shall be applied to resolve key disputes which may arise between them and their respective groups in connection with their continuing relationship and the Demerger.

Under the Separation Agreement, BT Group and mmO2 agreed that certain costs of the Demerger would be apportioned between them as they may agree in writing.

Under a separate arrangement, BT Group and mmO2 agreed that mmO2 would pay the remaining amount of approximately US\$20 million in respect of the 1,500,000 non-voting shares in Esat Digifone Limited (now called O2 Communications (Ireland) acquired in April 2000.

### Property Sale and Leaseback

On 13 December 2001, BT sold to Telereal Group Limited ("Telereal") a substantial part of BT's property portfolio together with the BT property division. Around 6,700 properties comprising offices, telephone exchanges, vehicle depots, warehouses, call centres and computer centres were transferred. The transaction also included the transfer of approximately 350 employees from BT to Land Securities Trillium (Telecom). Telereal will be responsible for providing accommodation and estates management services to BT. In return, we pay Telereal around £190 million of annual rental, increasing at 3% a year, for use of the freeholds. In addition, BT has transferred the economic risk on a large portion of its leased properties to Telereal in return for an annual rental commencing at approximately £90 million per annum.

BT will have the flexibility to vacate approximately 35% by rental value of the estate over the contract term at no extra cost.

Telereal, defined above, is a 50/50 joint venture between Land Securities Trillium Limited (a wholly-owned subsidiary of Land Securities plc) and William Pears Family Holdings Limited. The transaction raised approximately £2.38 billion for BT.

### Concert Unwind Agreement

On 15 October 2001, AT&T, BT and Concert entered into binding agreements to terminate the Concert joint venture. The termination was completed on 1 April 2002, whereupon Concert ceased to exist as a joint venture. In connection with the termination, the assets, liabilities, contracts, customers and other operational items were allocated between BT and AT&T with appropriate true up payment mechanisms to reflect the allocation of assets. The assets and liabilities were allocated between AT&T and BT with the majority of items originally contributed by each of AT&T and BT in connection with the formation of the Concert joint venture being returned to the relevant parent.

Following termination of the joint venture, Concert BV will be renamed BT Global Networks Holdings (Netherlands) BV.

BT has entered into a number of ongoing commercial agreements with AT&T in order to allow it to continue its global operations, and offer telecommunication services, in various geographic regions where BT may no longer have infrastructure as a result of the transfer of certain assets to AT&T.

In connection with the termination of the Concert joint venture, AT&T has acquired BT's minority interest in AT&T Canada and BT no longer has any interest or obligation in relation to AT&T Canada.

### Taxation (US Holders)

This is a summary only of the principal US federal income tax and UK tax consequences of the ownership and disposition of ordinary shares or ADSs by US Holders (as defined below) who hold their ordinary shares or ADSs as capital assets. It does not address all aspects of US federal income taxation and does not address aspects that may be relevant to persons who are subject to special provisions of US federal income tax law, including US expatriates, insurance companies, tax-exempt organisations, financial institutions, securities broker-dealers, persons subject to alternative minimum tax, investors that actually or constructively own 10% or more of our outstanding share capital, persons holding their shares or ADSs as part of a straddle, hedging transaction or conversion transaction, persons who acquired their shares or ADSs pursuant to the exercise of options or similar derivative securities or otherwise as compensation, or persons whose functional currency is not the US dollar, amongst others. Those holders may be subject to US federal income tax consequences different from those set forth below.

For purposes of this summary, a "US Holder" is a beneficial owner of ordinary shares or ADSs that, for US federal income tax purposes, is: an individual citizen or resident of the United States, a corporation or certain other entities created or organised in or under the laws of the United States or any state thereof, an estate whose income is subject to US federal income taxation regardless of its source, or a trust if a US court can exercise primary supervision over the administration of the trust and one or more US persons are authorised to control all substantial decisions of the trust. If a partnership holds

ordinary shares or ADSs, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. If a US Holder is a partner in a partnership that holds ordinary shares or ADSs, such Holder is urged to consult its own tax adviser regarding the specific tax consequences of owning and disposing of the 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 US and the UK.

In particular, this summary is based on the current convention between the US 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 signed a new convention on 24 July 2001 (“the New Treaty”), the provisions of which will not enter into force until the convention has completed its passage through the UK Parliament and the US Senate and has been ratified by both governments.

### 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. A US holder could elect to receive a foreign tax credit or deduction with respect to any UK withholding tax on IRS Form 8833 (Treaty-Based Return Position Disclosure Under Section 6114 or 7701(b)). A US Holder will be denied a foreign tax credit (and instead allowed a deduction) for the Treaty payment unless the US Holder has held the shares upon which the dividend was received for at least 16 days during the 30-day holding period beginning on the date which is 15 days before the ex-dividend date. Any days during which a US Holder has a substantially diminished risk of loss on the shares are not counted toward meeting the 16-day holding period requirement. Also, a US Holder that is under an obligation to make related payments with respect to the shares (or substantially similar or related property) is not entitled to claim a foreign tax credit with respect to a foreign tax imposed on a dividend.

If the New Treaty enters into force, the Treaty payment and the UK withholding described above will no longer apply to US Holders. The UK does not currently apply a withholding tax on dividends under its internal tax laws. Were such withholding imposed in the UK as permitted under the New Treaty (in the form signed 24 July 2001), the UK generally will be entitled in certain circumstances to impose a withholding tax at a rate of 15% on dividends paid to US Holders. A US Holder who is subject to such withholding should be entitled to a credit for such withholding, subject to applicable limitations, against such US Holder’s US federal income tax liability. In such circumstances, a US Holder will continue to be subject to the holding period requirements described above.

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 by a US Holder of ordinary shares (calculated by reference to the spot rate on the relevant date, or by the Depository, in the case of ADSs). 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 or ADSs, 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, whether the US Holders will be eligible for benefits under the New Treaty, 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.

### **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 generally will recognise 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 dollar value of the amount realised on the disposition and the US Holder's adjusted tax basis (determined in US dollars) in the ordinary shares or ADSs. Such gain or loss generally 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 at the time of disposition. 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 backup 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 backup withholding at a current rate of 30%. Certain exempt recipients (such as corporations) are not subject to these information reporting requirements. Backup 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 furnish IRS Form W-9 (Request for Taxpayer Identification Number and Certification). Non-US Holders generally will not be subject to US information reporting or backup 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.

Amounts withheld as backup 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 backup withholding rules by filing the appropriate claim for refund with the IRS and furnishing any required information.

### **UK stamp duty**

A transfer of an ordinary share will generally be subject to UK stamp duty or UK stamp duty reserve tax at 0.5% of the amount or value of any consideration provided. A transfer of an ordinary share into a clearance service or American depository system gives rise to a 1.5% charge of either the amount of the consideration provided or the value of the share issued. No UK stamp duty will be payable on the transfer of an ADS (assuming it is not registered in the UK), provided that the transfer documents are executed and always retained outside the UK.

### **UK inheritance and gift taxes in connection with ordinary shares and/or ADSs**

Where an individual holder of ordinary shares and/or ADSs falls within the scope of the UK/US Estate and Gift Tax Convention, US-domiciled holders of ordinary shares and/or ADSs will not generally be subject to UK inheritance tax on a gift of ordinary shares and/or ADSs if the gift is subject to US federal gift tax. Similarly, ordinary shares and/or ADSs passing on the death of a US-domiciled shareholder will not generally be subject to UK inheritance tax if the estate is subject to US estate tax. The rules and scope of domicile are complex and action should not be taken without advice specific to the individual's circumstances.

### **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.btplc.com/investorcentre](http://www.btplc.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	July, November, February and May
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	June 1999
Quality of Service Report	May and November

For printed copies, when available, contact the Shareholder Helpline on **Freephone 0808 100 4141** or, alternatively, contact **The Registrar** in the UK, **BT North America Inc.** in the USA or **BT Japan KK** in Japan at the addresses on page 154.

### Shareholder communication

BT is committed to communicating openly with each of its stakeholder audiences in the manner most appropriate to their requirements.

All investors can visit our Investor Centre at [www.btplc.com/investorcentre](http://www.btplc.com/investorcentre) for additional information regarding quarterly results and major announcements.

An electronic copy of this document is available at [www.btplc.com/annualreport](http://www.btplc.com/annualreport).

### Private shareholders

If private shareholders have any enquiries about their shareholding, they should contact the Registrar (the address can be found below).

Lloyds TSB Registrars maintain BT Group's share register and the separate BT Group EasyShare and BT Employee Share Ownership Scheme registers. They also provide a Shareholder Helpline service on **Freephone 0808 100 4141**.

### Institutional investors and analysts

Institutional investors and equity research analysts may contact Investor Relations on:

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### Shareholder Helpline

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### The Registrar

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The Causeway

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BN99 6DA

United Kingdom

Website:

[www.lloydtsb-registrars.co.uk](http://www.lloydtsb-registrars.co.uk)

### ADR Depositary

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JPMorgan Service Centre

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Providence, RI 02940-3013

United States

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or +1 781 575 4328 (from outside the USA)

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