Listing Particulars Dated December 6, 2000

BRITISH TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

(incorporated with limited liability in England and Wales under the Companies Act 1948 to 1981)
(registered number: 1800000)

$1,100,000,000 Floating Rate Notes due 2003

$3,100,000,000 7⅝% Notes due 2005

$3,000,000,000 8⅛% Notes due 2010

$2,800,000,000 8⅝% Notes due 2030

Application has been made to the United Kingdom Financial Services Authority in its capacity as United Kingdom Listing Authority for the $1,100,000,000 Floating Rate Notes due 2003, the 7⅝ per cent. Notes due 2005, the 8⅛ per cent. Notes due 2010 and the 8⅝ per cent. Notes due 2030 (the "Notes") of British Telecommunications public limited company to be admitted to the official list maintained by it (the "Official List"). Application has also been made to the London Stock Exchange plc for the Notes to be admitted to trading by the London Stock Exchange plc. Under the Listing Rules of the United Kingdom Listing Authority, these applications together constitute official listing on the London Stock Exchange plc.

Pursuant to the United Kingdom Financial Services Act, in order to obtain a listing on the London Stock Exchange, British Telecommunications public limited company is obliged to prepare listing particulars that contain all information which investors and their professional advisers would reasonably require and reasonably expect to find there, in order to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of British Telecommunications public limited company and the rights attaching to the securities in question. In determining what information is so required or is so expected, regard may be had to, among other things (1) the nature of the securities, (2) the nature of persons likely to consider their acquisition and (3) certain information available to investors and their professional advisers. In order to satisfy this obligation, British Telecommunications public limited company is not permitted to rely upon information incorporated by reference in the document that constitutes listing particulars.

This document is supplemental to, and should be read in conjunction with:

- the prospectus supplement dated December 5, 2000 (the "Prospectus Supplement") in relation to the Notes; and
- the prospectus filed with United States Securities and Exchange Commission dated July 27, 2000 (the "Prospectus") relating generically to debt securities (including the Notes) to be issued by British Telecommunications public limited company and which are to be registered with the United States Securities and Exchange Commission.

British Telecommunications public limited company has determined that this document, together with the Prospectus Supplement and the Prospectus, together constituting the "Listing Particulars", satisfies the requirements of the United Kingdom Financial Services Act referred to above in relation to the Notes. Accordingly, any reference to "Listing Particulars" excludes any information expressed to be incorporated by reference in this document, the Prospectus Supplement and the Prospectus, including any such information to which readers of this document, the Prospectus Supplement or Prospectus are expressly referred in the text of the Listing Particulars.

British Telecommunications public limited company has determined that any information expressed to be incorporated by reference, including any such information to which readers of the Prospectus Supplement or Prospectus are expressly referred in the text of the Listing Particulars does not need to be included in the Listing Particulars to satisfy the requirements of the United Kingdom Financial Services Act 1986 referred to above.

Furthermore, British Telecommunications public limited company believes that none of the information expressed to be incorporated in this document, the Prospectus Supplement and the Prospectus by reference conflicts in any material respect with the information included in the Listing Particulars.

A copy of the Listing Particulars approved by the United Kingdom Listing Authority as required by the United Kingdom Financial Services Act 1986 in relation to the Notes to be admitted to the Official List and admitted to trading on the London Stock Exchange plc has been delivered to the Registrar of Companies in England and Wales as required by Section 149 of the Financial Services Act 1986.

British Telecommunications public limited company accepts responsibility for the information contained in the Listing Particulars. To the best of the knowledge and belief of British Telecommunications public limited company (having taken all reasonable care to ensure that such is the case), the information contained in the Listing Particulars is in accordance with the facts and does not omit anything likely to affect the import of such information.

Save as disclosed in the Prospectus Supplement on page S-77, there has been no significant change in the financial or trading position of British Telecommunications public limited company and its subsidiaries since September 30, 2000 (which is the date of its most recent published unaudited financial statements) and there has been no material change in the financial position or prospects of British Telecommunications public limited company and its subsidiaries since March 31, 2000 (which is the date of its most recent published audited financial statements).

No member of British Telecommunications public limited company and its subsidiaries is or has been engaged in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on British Telecommunications public limited company and its subsidiaries's financial position nor are any such proceedings pending or threatened.

Save as disclosed in the Prospectus Supplement on pages S-16 and S-17, since September 30, 2000 there has been no material change in the authorized and issued share capital, capitalization, indebtedness, contingent liabilities or guarantees of British Telecommunications public limited company and its subsidiaries and no material change in the total borrowings of the company and its subsidiaries.

There has been no change in the composition of the Board of Directors and Executive Officers of British Telecommunications public limited company disclosed in the Prospectus Supplement on page S-62.

References in the Prospectus Supplement to "notes" are to the "Notes." References in the Prospectus to "notes" are to debt securities (including the Notes) to be issued by British Telecommunications public limited company and which are to be registered with the United States Securities and Exchange Commission.

PROSPECTUS SUPPLEMENT
(To Prospectus dated July 27, 2000)

$10,000,000,000

BRITISH TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

(incorporated with limited liability in England and Wales under the Companies Act 1948 to 1981)
(Registered number: 1800000)

$1,100,000,000 Floating Rate Notes Due 2003
$3,100,000,000 7⅝% Notes Due 2005
$3,000,000,000 8⅛% Notes Due 2010
$2,800,000,000 8⅝% Notes Due 2030

Interest on the 5-year, 10-year and 30-year notes will be payable semi-annually in arrears on June 15 and December 15 of each year, beginning on June 15, 2001. Interest on the 3-year notes will be payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year, beginning on March 15, 2001.

Interest on the 3-year notes is payable at a rate per annum equal to the base rate, which is described under "Description of the Notes" beginning on page S-63, plus 1.045 per cent. Interest is payable at the rate of 7⅝ per cent. per annum with respect to the 5-year notes, 8⅛ per cent. per annum with respect to the 10-year notes and 8⅝ per cent. per annum with respect to the 30-year notes.

We may redeem the 5-year, 10-year and 30-year notes, in whole or in part, at any time at the redemption prices described in this prospectus supplement plus accrued interest. In addition, we may, in the event of changes in the tax laws of the United Kingdom that would require the payment of additional amounts, redeem the notes, in whole but not in part, at 100 per cent. of their principal amount plus accrued interest.

We have applied to the United Kingdom Financial Services Authority in its capacity as United Kingdom Listing Authority for the notes to be admitted to the official list maintained by it. We have also applied to the London Stock Exchange plc for the notes to be admitted to trading by the London Stock Exchange plc. Under the listing rules of the United Kingdom Listing Authority these applications will together constitute official listing on the London Stock Exchange plc.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the related prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

See "Risk Factors" beginning on Page S-12 to read about factors you should consider before investing in the notes.

	Price to Public	Underwriting Discounts and Commission	Proceeds to Company
Per floating rate note	100%	0.225%	99.775%
Total	$1,100,000,000	$ 2,475,000	$1,097,525,000
Per 7⅝ per cent. note	99.839%	0.350%	99.489%
Total	$3,095,009,000	$10,850,000	$3,084,159,000
Per 8⅛ per cent. note	99.837%	0.450%	99.387%
Total	$2,995,110,000	$13,500,000	$2,981,610,000
Per 8⅝ per cent. note	99.340%	0.875%	98.465%
Total	$2,781,520,000	$24,500,000	$2,757,020,000

Interest on the notes will accrue from December 12, 2000.

The notes will be available in book-entry form only through the facilities of The Depository Trust Company, Clearstream, Luxembourg and Euroclear on or about December 12, 2000.

Joint Lead Managers and Joint Bookrunners

Merrill Lynch & Co. Morgan Stanley Dean Witter Salomon Smith Barney

Co-Lead Managers

ABN AMRO Incorporated Deutsche Banc Alex.Brown The Royal Bank of Scotland, Financial Markets

Barclays Capital HSBC SG Investment Banking

December 5, 2000

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information provided by this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of this prospectus supplement.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE LONDON STOCK EXCHANGE, IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

British Telecommunications public limited company is incorporated with limited liability in England and Wales under the Companies Act 1948 to 1981 under registered number: 1800000. In this prospectus supplement references to "BT" or the "group" are to the company and its subsidiaries, references to "the company," "the issuer," "we," "our" and "us" refer to British Telecommunications public limited company.

The prospectus accompanying this prospectus supplement contains important information regarding this offering which is not contained in this prospectus supplement. You are urged to read the prospectus and this prospectus supplement in full. You must receive both this prospectus supplement and the prospectus before any sales of the notes may be consummated.

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Prospectus Supplement

Prospectus

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements included in this prospectus supplement and the prospectus and in the documents incorporated herein or therein by reference are forward-looking. These statements include, without limitation, those concerning:

- BT's vision and its ability to fulfill such vision; the benefits and advantages of BT's restructuring; growth of, and opportunities available in the communications industry and the positioning of BT to take advantage of such opportunities;
- expectations regarding competition, 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;
- expectations regarding participation in bids for third generation (3G) licenses outside the United Kingdom;
- the impact of regulatory initiatives on operations; regulation of the U.K. fixed wholesale and retail businesses;
- the possible or assumed future results of operations of BT and/or its associates and joint ventures;
- expectations regarding the factors continuing to affect group operating profit and total operating profit;
- expectations regarding BT's net debt;
- expectations regarding the listing of some of BT's businesses;
- capital expenditure and investment plans;
- adequacy of capital;
- financing plans; and
- those preceded by, followed by, or that include the words "expects," "anticipates" or similar expressions.

Although we believe that the expectations reflected in these forward-looking statements are reasonable, we 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 actual results to differ from those expressed or 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 new businesses;
- future regulatory actions and conditions in BT's operating areas, including competition from others in the U.K. and other international communications markets;
- selection by BT and its new businesses of the appropriate trading and marketing models for its products and services;

- the costs associated with building 3G networks and the speculative nature of future revenues and earnings streams from this investment;
- technological innovations, including the cost of developing new products; the need to increase expenditure improving the quality of service;
- 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 new businesses in certain communications markets;
- significant changes in market shares for BT and its new businesses' principal products and services;
- fluctuations in foreign currency exchange rates and interest rates; and
- to the extent that BT chooses to sell assets or minority interests in its subsidiaries, prevailing market levels for such sales.

WHERE YOU CAN FIND MORE INFORMATION

We file annual reports and other information with the Securities and Exchange Commission ("SEC"). You may read and copy any document we file at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms or visit their website at www.sec.gov. Our Ordinary Shares are admitted to the Official List of the U.K. Listing Authority and traded on the London Stock Exchange plc under the symbol "BT.A." Our American Depositary Shares representing Ordinary Shares are quoted on the New York Stock Exchange under the symbol "BTY." You may consult reports and other information about us we filed pursuant to the rules of the London Stock Exchange plc and the New York Stock Exchange.

We will furnish to holders of debt securities, upon request, annual reports on Form 20-F containing a summary description of our business and annual audited consolidated financial statements with a report by our independent public accountants. Such financial statements are prepared in accordance with generally accepted accounting principles applicable in the United Kingdom ("U.K. GAAP") which differ in certain significant respects from generally accepted accounting principles applicable in the United States ("U.S. GAAP"). Unless otherwise indicated, all financial data is prepared in accordance with U.K. GAAP. The annual report contains a reconciliation of profit/(loss) for the year and shareholders' equity to amounts in accordance with U.S. GAAP of net income and shareholders' equity.

INCORPORATION OF INFORMATION WE FILE WITH THE SEC

The SEC allows us to incorporate by reference the documents we file with it, which means that we can disclose important information to you by referring you to those documents and that those documents are considered part of this prospectus supplement. Information that we file with the SEC in the future and incorporate by reference will automatically update and supersede the previously filed information. The information that we incorporate by reference is an important part of this prospectus supplement. We incorporate by reference the documents listed below and any future filings made with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until this offering has been completed.

(a) Annual Report on Form 20-F, as amended, for the fiscal year ended March 31, 2000, which we refer to as our 2000 Form 20-F Report,

(b) Our report on Form 6-K dated November 13, 2000, including our half-year results through September 30, 2000, and

(c) Our reports on Form 6-K furnished to the SEC after the date of this prospectus supplement only to the extent that these reports expressly state that they are incorporated by reference in this prospectus supplement.

As you read the above documents, you may find inconsistencies in information from one document to another. If you find inconsistencies you should rely on the statements made in the most recent document. All information appearing in this prospectus supplement is qualified in its entirety by the information and financial statements, including the notes thereto, contained in the documents we have incorporated by reference.

You may request copies of these filings at no cost by accessing our website at http://www.bt.com, or by writing or telephoning us at the following address:

British Telecommunications plc
BT Centre
81 Newgate Street
London EC1A 7AJ
England
+ 44 20 7356 5000
Attention: Mary Leen

PROSPECTUS SUPPLEMENT SUMMARY

You should read this summary together with the more detailed information regarding us and the notes being sold in this offering, as well as our financial statements and the notes to those statements appearing elsewhere in this prospectus supplement and the accompanying prospectus.

THE COMPANY

Introduction

BT is one of the world's leading global providers of communications services.

BT's main activities include:

- the provision of fixed exchange lines and private circuits, and fixed local, national and international voice and data calls to homes and businesses in the United Kingdom;
- the supply of mobile communication services and equipment to businesses and individuals in the United Kingdom and internationally;
- the delivery of international new-wave products and services, including internet, multimedia, data transport and solutions;
- the provision of communication services in the United Kingdom to other operators;
- the supply of telecommunications equipment for customers' premises in the United Kingdom; and
- the supply of classified advertising directories in the United Kingdom and the United States of America.

In the financial year ended March 31, 2000, 95 per cent. of our group revenues arose from operations in the United Kingdom. Approximately 18 per cent. of total revenues (which include our proportionate share of our ventures' revenues) arose from activities outside the United Kingdom, compared with around 10 per cent. in the previous financial year.

We have been investing significantly, building new, high-bandwidth networks that are essential to support our main activities, and obtaining 3G licenses in key markets in Europe and Japan. We have also been consolidating our position in our core markets outside the United Kingdom, particularly in Western Europe and Japan. We have interests in mobile and fixed-line operations, together capable of reaching about 80 per cent. of the population of Western Europe and virtually all of its major business centers.

Strategic Review

In April 2000, we announced a restructuring of the group from a geographically focused organization to one of global lines of business. The objective is to improve our position in a rapidly-changing marketplace, with a sound balance between management focus, the ability to capture cross-business synergies and the flexibility to meet future needs.

On July 1, 2000, we implemented this restructuring plan by regrouping some of our activities in the United Kingdom, continental Europe and elsewhere by market sector rather than geography to form four potentially high-growth global businesses:

- **BT Wireless**, an international mobile business;
- **BT Ignite**, an international, data-centric, broadband internet protocol (IP) and solutions business;
- **BTopenworld**, a mass-market internet business; and
- **Yell**, an international directories and e-commerce business.

These businesses work alongside Concert, our global joint venture with AT&T which was launched during the 2000 financial year. Concert is a leading global communications provider for multinational business customers, international carriers and internet service providers (ISPs) worldwide. We are currently exploring ways of broadening and strengthening the scope of the relationship between BT and AT&T in business services.

On November 9, 2000, we announced a further series of steps to accelerate the transformation of our business. In particular, we will:

- create a separate network company, NetCo, subject to government and regulatory approval, to focus exclusively on the needs of wholesale customers. We then intend to list up to 25 per cent. of NetCo;
- list up to 25 per cent. of Yell by March 2001 and 25 per cent. of BT Wireless in the second half of 2001;
- by the end of 2001, have developed BT Ignite into a position from which it could be listed;
- create a new BT Group holding company, which will provide greater flexibility, including the scope for further listings where advantageous to shareholders and customers;
- tighten our in-country geographic focus to within Western Europe and Japan; and
- reduce BT's net debt by £10 billion from peak levels by December 2001.

We believe that BT, after the completion of these steps, will have a set of customer-focused businesses with devolved authority, without losing the operational synergies that go with belonging to the group.

We have also made a number of significant acquisitions in 2000:

- In March 2000, under a public offer, we acquired control of the Republic of Ireland's Esat Telecom Group for approximately £1.5 billion. Esat operates a fixed-line network in Ireland and has a 49.5 per cent. interest in mobile operator Esat Digifone. We also acquired directly a 1 per cent. beneficial interest in Esat Digifone.
- In June 2000, we took sole control of Telfort, our Dutch joint venture, by acquiring the 50 per cent. we did not already own, for £1.21 billion (NLG 4.2 billion). Telfort provides fixed and mobile services in the Netherlands to businesses and consumers.
- In August 2000, we announced that we had agreed to take 90 per cent. control of Viag Interkom by acquiring the 45 per cent. interest held by E.ON (formerly Viag AG) for Euro 7.25 billion by way of a put option exercisable in January 2001, or for Euro 7.35 billion by way of a call option exercisable from May 2001. Viag Interkom provides fixed, mobile and internet services to businesses and consumers. Telenor, which has a 10 per cent. stake in Viag Interkom, has entered into an agreement whereby Telenor may compel BT to purchase its stake, or BT may compel Telenor to sell it to BT.
- In September 2000, we increased our stake in Swedish telecommunications operator Telenordia to 50 per cent., buying half of Tele Danmark's share in the venture for £96 million. Telenor has similarly increased its stake to 50 per cent., by purchasing the remainder of Tele Danmark's holding.

THE OFFERING

You should read "Description of the Notes" beginning on page S-63 of this prospectus supplement for more detailed information about the notes.

Notes Offered	Floating Rate Notes due 2003, referred to as the 3-year notes
	7⅝ per cent. Notes due 2005, referred to as the 5-year notes
	8⅛ per cent. Notes due 2010, referred to as the 10-year notes
	8⅝ per cent. Notes due 2030, referred to as the 30-year notes
Stated Maturities	3-year notes: December 15, 2003
	5-year notes: December 15, 2005
	10-year notes: December 15, 2010
	30-year notes: December 15, 2030
Company Credit Rating	Our current senior unsecured credit rating by Moody's is A2 with a stable outlook. Our current rating by S&P is A with a negative outlook.
Total Principal Amount of Notes Being Issued	$10,000,000,000.00
Issue Prices	3-year notes: 100.00 per cent.
	5-year notes: 99.839 per cent.
	10-year notes: 99.837 per cent.
	30-year notes: 99.340 per cent.
Ranking	The notes will rank equally without any preference among themselves and equally with all of our present and future unsecured and unsubordinated indebtedness.
Interest Rates	3-year notes: the interest rate for the period from December 12, 2000 to the first interest reset date will be the base rate, as adjusted by adding the spread. Thereafter, the interest rate will be the base rate, as adjusted by adding the spread, subject to further adjustment as described under "Description of the Notes — Interest." The interest rate will be reset quarterly on each interest reset date.
	5-year notes: 7⅝ per cent.
	10-year notes: 8⅛ per cent.
	30-year notes: 8⅝ per cent.
Spread on 3-year Notes	1.045 per cent.
Base Rate	LIBOR, as described under "Description of the Notes — Interest."
Interest Reset Dates for 3-year Notes	The interest rate applicable to the 3-year notes will be reset quarterly on March 15, June 15, September 15 and December 15 of each year, as described under "Description of the Notes — Interest."

Interest Rate Adjustment	The interest payable on the notes will be subject to adjustment in the event of a decrease in the rating of our unsecured senior debt by either Moody's or S&P to below A3 in the case of Moody's or below A– in the case of S&P. In this event, the interest rate, in the case of the 5-year notes, 10-year notes and 30-year notes, and the spread, in the case of the 3-year notes, will be adjusted by 0.25 per cent. for each ratings category adjustment by each ratings agency. For more information, see "Description of the Notes — Interest Rate Adjustment."
Date Interest Starts Accruing	December 12, 2000
Interest Payment Dates for 5-year, 10-year and 30-year Notes	Semi-annually in arrears every June 15 and December 15
Interest Payment Dates for 3-year Notes	Quarterly in arrears every March 15, June 15, September 15 and December 15
First Interest Payment Date for 5-year, 10-year and 30-year Notes	June 15, 2001
First Interest Payment Date for 3-year Notes	March 15, 2001
Restrictive Covenants	The indenture relating to the notes contains covenants restricting our ability to pledge our assets to secure certain borrowings and granting holders of notes the right to require us to redeem their notes at a price equal to 100 per cent. of their principal amount plus accrued interest in the event we merge or consolidate with, or sell all or substantially all of our assets to, any other person, such person's credit rating is below a certain level and certain other conditions are met. For more information, see "Description of the Notes." However, the indenture does not contain any covenants restricting our ability to make payments, incur indebtedness, dispose of assets, enter into sale-leaseback transactions, issue and sell capital stock, enter into transactions with affiliates, create or incur liens on our property or engage in business other than our present business.
Optional Redemption	We may redeem the 5-year notes, the 10-year notes or the 30-year notes, but not the 3-year notes, in whole or in part at any time at the redemption prices described in this prospectus supplement plus accrued interest to the date of redemption.
Additional Amounts; Optional Tax Redemption	If the U.K. tax authorities require us to make a deduction on a payment made on the 3-year notes, the 5-year notes, the 10-year notes or the 30-year notes, we will, to the extent described in this prospectus supplement, make an increased payment so that you will receive the same amount as the original payment before the deduction. If we are required to make such an increased payment, as set forth herein, we may redeem the relevant notes, in whole but not in part, at a price equal to 100 per cent. of their principal amount plus accrued interest.

Form of Securities; Settlement	The notes of each series will be represented by two or more global bearer securities that are deposited with Citibank, N.A. as depositary. You will hold beneficial interests in the notes through The Depository Trust Company ("DTC") and records of ownership of the beneficial interests will be made in DTC's books and the books of direct and indirect participants (including Euroclear and Clearstream, Luxembourg). Certificated notes will not be issued except in limited circumstances that are explained in the prospectus. The notes will settle through DTC, Euroclear or Clearstream, Luxembourg in same day funds.
Listing	We have applied for the notes to be admitted to trading on the London Stock Exchange plc.
Governing Law	The notes will be governed by the laws of the State of New York.
Use of Proceeds	We will receive net proceeds from this offering of approximately $9,919,489,000 We plan to use the net proceeds from the sale of the notes offered for general corporate purposes.
Risk Factors	You should carefully consider all of the information in this prospectus supplement and in the accompanying prospectus and, in particular, the risks described under "Risk Factors" beginning on page S-12 before deciding to invest in the notes.

RISK FACTORS

An investment in the notes involves risks. You should carefully consider all of the information in this prospectus supplement and in the accompanying prospectus and, in particular, the risks described below before deciding to invest in the notes.

To pursue our investment and acquisition strategy, we have substantially increased our outstanding debt and we will continue to do so in the near-term. In part because of this increase in our indebtedness, our credit ratings have recently been reduced. We are planning certain asset dispositions and the partial flotation of certain subsidiaries, which should enable us to reduce our indebtedness, but if we are unable to reduce our indebtedness as planned, our credit ratings may be further reduced. This would likely increase our cost of financing and may have an adverse effect on the trading price of the notes and possibly on the liquidity of the notes.

Our strategy involves increasing the proportion of our revenues that comes from new-wave activities — internet, multimedia, mobility, data and solutions — and from operations outside the United Kingdom. To achieve this, we have been investing significantly in obtaining licenses and building new, high bandwidth networks necessary to support these new-wave activities while building up our non-U.K. operations through a number of significant acquisitions and other investments. We plan to continue these efforts to expand and diversify our business, and we have incurred and expect to incur substantial additional debt in order to do so. As a result, we anticipate that balance sheet gearing or the ratio of net debt (borrowings net of cash and short-term investments) to shareholders' equity and minority interests, which stood at 6.3 per cent. at March 31, 1999, at 53 per cent. total at March 31, 2000 and at 113 per cent. at September 30, 2000, will increase to more than 150 per cent. at March 31, 2001. At September 30, 2000, our net debt was £18.7 billion, which we expect to rise to approximately £30 billion during 2001, without regard to the reductions in indebtedness we expect to achieve through our restructuring plan.

On August 24, 2000, Standard & Poor's Ratings Services reduced our long-term corporate debt and senior unsecured debt ratings to "A" from "AA+," and removed the company from CreditWatch with negative implications. In taking this ratings action, Standard & Poor's cited the following factors:

- the considerable additions to BT's debt burden associated with its pursuit of growth opportunities, including the acquisition of 3G mobile licenses, which BT expects could cause its net debt to be as high as £30 billion in 2001;
- the lesser stability and predictability of BT's revenue and earnings streams from activities representing an expansion of its business, both geographically and by product line, relative to those from its traditional activities in the U.K. domestic market; and
- particularly with respect to 3G mobile, the heavy up-front license costs and progressive network capital expenditure relative to the level of uncertainty surrounding future revenue and earnings streams from mobile data services.

Standard & Poor's notes that it received a range of commitments from our senior management which should result in a reduction of net debt by March 2002 to a level consistent with an "A" rated company. However, Standard & Poor's also revised BT's ratings outlook to "negative," citing current market uncertainty, and stating that a significant delay in receiving asset sale proceeds would in its view adversely affect BT's near-term debt protection measures, and could lead to a further ratings downgrade.

On September 6, 2000, Moody's Investors Service reduced BT's long-term corporate debt ratings to "A2" from "Aa1." In taking this ratings action, Moody's cited the following factors:

- the expectation that BT will operate in the future under substantially higher financial and business risk as a result of 3G mobile license fee payments in the United Kingdom, Germany and The Netherlands coupled with BT's substantial recent investments in international expansion, the debt-funded nature of which Moody's stated significantly increases the financial risk of BT;

- the expectation of higher capital expenditure investments that are needed to upgrade BT's network in order to enhance BT's competitive position in a fast-changing technology environment;
- the increasingly competitive nature of the U.K. telecommunications market in light of the expected unbundling of the local loop by July 2001, in the context of increasing competitive pressure; and
- the expectation that BT's operating margins will suffer further deterioration as a result of pressure on tariffs, market share erosion, the cost of delivering new services such as asymmetric digital subscriber line (ADSL) technology, the ongoing change to BT's revenue sources given the increasing contribution to BT's revenue from lower margin segments such as wholesale while higher margin traditional traffic is decreasing, and the challenge facing BT's management to reverse the declining trend in its operating margins through the execution of an aggressive cost-cutting plan.

In stating that our ratings outlook is stable, Moody's noted that it had taken into consideration our restructuring plan as announced on April 13, 2000, our publicly stated intention to list Yell, our yellow-pages subsidiary, and our intention to raise cash in a relatively short time frame through the possible disposal of non-core assets.

As noted above, we are undertaking a substantial restructuring of our business. One of the planned consequences of the restructuring is to reduce our net debt by at least £10 billion by December 2001 from the peak levels reached during the year. Our ability to achieve this reduction will depend on our ability to effect the various partial flotations and disposals of our businesses and assets that are part of the restructuring, and the terms on which we do so. However, we cannot assure you that these flotations and disposals will occur as planned and we cannot predict what market conditions will be at the time or whether market conditions will be adversely affected by offerings of other telecommunications operators. If market conditions are adverse at the relevant times, we may not realize the valuations we currently anticipate in connection with these transactions or may be unable to effect them at all. As a result, we cannot assure you that our net debt will be reduced as planned.

More generally, we cannot assure you that we will be successful in carrying out measures that stabilize our credit profile, nor can we assure you that Standard & Poor's and Moody's will regard the measures we do carry out as sufficient. We also cannot assure you that we will proceed with any measures that might be favorable from a credit protection point of view, but that we believe are inconsistent with our growth and diversification strategy. In addition, other factors that are not directly related to our strategy, including factors outside our control, affect the rating agencies' view of our credit profile.

As a result of all these factors, we cannot assure you that our credit rating will not be further downgraded by Standard & Poor's or Moody's. Any such downgrade would, in most cases, increase our cost of financing in the future. Furthermore, a downgrade would be likely to have an adverse effect on the trading prices of the notes and, possibly, the liquidity of the market for the notes.

We are undertaking a substantial restructuring of our business in order to improve our position in a rapidly changing market place. Our plans for the implementation of the restructuring are incomplete in many respects, and the success of the restructuring will depend in part on factors that are beyond our control. As a result we cannot assure you that the goals of our restructuring plan will be fully achieved or that the form of the restructuring plan, if successful, will be in the best interest of the holders of the notes.

In general, our restructuring plans have involved separating the U.K. fixed-network business into two divisions and forming four new global businesses to operate and manage our broadband, internet, mobile and directories businesses and will involve the formation of a new U.K. network company and the creation of a new group holding company. There are, however, many uncertainties surrounding our restructuring plans which need to be resolved if they are to succeed fully. These uncertainties stem from a number of factors, including the following:

- We have established only a general outline for the restructuring and have yet to work out many of its details. As we refine our plans, we may encounter significant obstacles that we have not anticipated and that prevent us from fully implementing the restructuring or fully achieving its goals.

- Our plans require approval from our regulators, the Secretary of State for Trade and Industry and the Director General of Telecommunications who heads the Office of Telecommunications ("Oftel"). We expect to conduct extensive discussions with Oftel regarding our restructuring plans, which have not yet occurred. Depending on the outcome of these discussions, regulatory restrictions may constrain our ability to complete the restructuring according to our plans.

We cannot assure you that we will be successful in completing the restructuring as planned or that it will achieve all of our goals. Failure in this regard could adversely affect our strategic and competitive position.

In addition, even if we are successful in reducing our indebtedness through the restructuring, the form of the restructuring may not be in the best interests of holders of the notes.

RATIO OF EARNINGS TO FIXED CHARGES

Set forth in the table below are the ratios of earnings to fixed charges in accordance with U.K. GAAP and U.S. GAAP for each of five years in the period ended March 31, 2000 and also for the six-month period ended September 30, 2000.

	Year ended March 31,					Six month period ended September 30,	
	1996	1997	1998	1999	2000	1999	2000
In accordance with U.K. GAAP	7.5	8.5	8.3	10.7	7.2	9.4	2.9
In accordance with U.S. GAAP	7.1	9.0	7.4	9.7	5.9	8.6	1.8

The ratio of earnings to fixed charges is calculated by dividing (i) income from continuing operations before income taxes ("earnings") plus fixed charges by (ii) fixed charges. Fixed charges consist of gross interest expense.

USE OF PROCEEDS

The net proceeds to the company from the sale of the notes in this offering are expected to be approximately $9,919,489,000.00, after deducting underwriting discounts and commissions and estimated offering expenses. We plan to use the net proceeds from the sale of the notes offered for general corporate purposes.

EXCHANGE RATES

The following table sets forth, for the periods and dates indicated, the average, high, low and end of period noon buying rates in The City of New York for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York for pounds sterling expressed in U.S. dollars per pound sterling.

Financial year	Average*	High	Low	Period End
March 31, 2001 (through September 30, 2000)	1.50	1.60	1.40	1.48
March 31, 2000	1.61	1.68	1.55	1.59
March 31, 1999	1.65	1.72	1.60	1.61
March 31, 1998	1.65	1.70	1.58	1.68
March 31, 1997	1.60	1.71	1.49	1.64
March 31, 1996	1.52	1.56	1.50	1.53

* The average of the exchange rates on the last day of each full calendar month during the period.

On December 4, 2000, the noon buying rate in The City of New York was $1.4523 per £1.00.

CAPITALIZATION AND INDEBTEDNESS OF THE COMPANY AND ITS SUBSIDIARIES

Set out below is a summary of the unaudited consolidated shareholders' funds and borrowings of the company and its subsidiaries as at September 30, 2000, as adjusted for an additional short-term bank borrowing of £750 million incurred on December 5, 2000.*

	As at September 30, 2000 (as adjusted) (unaudited) (in £ millions)
Capital and Reserves	
Authorized share capital (10,500 million ordinary shares of 25p each)	2,625
Called up share capital (fully paid) (6,555 million ordinary shares of 25p each)	1,639
Reserves	14,426
Total	16,065
Borrowings	
5.75 per cent. Bonds due 2028	596
3.50 per cent. Index Linked Notes due 2025	245
8⅝ per cent. Bonds due 2020	296
8.765 per cent. Bonds due 2009	135
11.875 per cent. Senior Notes due 2009	135
11.875 per cent. Senior Notes due 2008	126
12.5 per cent. Senior Deferred Coupon Notes due 2007	134
7 per cent. Notes due 2007	674
12¼ per cent. Bonds due 2006	229
6.75 per cent. Bonds due 2004	676
12¼ per cent. Bonds due 2003	180
7⅛ per cent. Bonds due 2003	498
6¾ per cent. Notes due 2002	1,011
Other term loans	628
Bank loans and overdrafts	714
Bank borrowing incurred December 5, 2000	750
Medium term notes	6,809
Commercial paper	8,307
Other borrowings	41
Sub-total	22,184
Less effect of currency swaps and hedges	(235)
Total[(a)]	21,949
Total Capitalization	**38,014**

(a) Includes £14,800 million repayable within one year and £11 million secured on assets of the company and its subsidiaries. All other loans are unsecured. None of the borrowings of the company and its subsidiaries is guaranteed.

* The information set out in the above table has been prepared on the basis of the accounting policies used for the audited annual accounts of the company and its subsidiaries for the year ended March 31, 2000, except that the total borrowings are now stated net of the effect of currency swaps acting as hedges.

The group had no material contingent liabilities or material guarantees outstanding as at September 30, 2000, other than guarantees and indemnities issued in respect of certain of its associates and joint ventures' obligations amounting to £1,654 million.

At the close of business on October 31, 2000, the company and its subsidiaries' total borrowings were £22,314 million comprising outstanding bonds, debentures and notes of £5,177 million, bank loans and overdrafts of £722 million, other borrowings of £16,401 million and secured obligations under finance leases, excluding interest, amounting to £14 million.

Satellite consortia, in which BT has participating interests, are organizations without limited liability. At October 31, 2000, BT's share of the aggregate borrowings of these consortia amounted to approximately £120 million.

Save as disclosed above and apart from intra-group liabilities, the company and its subsidiaries had outstanding as at September 30, 2000, no loan capital issued, or created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances (other than normal trade bills), acceptance credits or hire purchase commitments, obligations under finance leases, mortgages, charges, guarantees, nor any other material contingent liabilities as at the date hereof. Loans to subsidiaries of the company supported by guarantees of other subsidiaries of the company have been treated as unsecured.

Save as disclosed above, since September 30, 2000 there has been no material change in the authorized and issued share capital, capitalization, indebtedness, contingent liabilities or guarantees of the company and its subsidiaries and no material change in the total borrowings of the company and its subsidiaries.

SELECTED FINANCIAL DATA

The table below sets forth selected financial data for the company as of and for the periods indicated. The selected financial data set forth below as of, and for, the years ended, March 31, 2000, 1999, 1998, 1997 and 1996 have been extracted without material adjustment from the company's audited consolidated financial statements. The selected financial data set forth below as of, and for, the six month periods ended September 30, 2000 and September 30, 1999 have been extracted from the company's unaudited consolidated financial statements. The financial statements have been prepared in accordance with U.K. GAAP, which differs in certain respects from U.S. GAAP. For a reconciliation of U.K. GAAP to U.S. GAAP with respect to net income, shareholders' equity and certain other financial data, see "Summary of Differences between U.K. GAAP and U.S. GAAP" on pages 103 through 108 of our Annual Report on Form 20-F for the financial year ended March 31, 2000, which is incorporated by reference in this prospectus supplement. The information set forth below is not necessarily indicative of the results that may be expected from future operations. The following information should be read in conjunction with the company's audited consolidated financial statements including the notes to those statements appearing in our Annual Report on Form 20-F and with the company's unaudited consolidated interim financial statements in our Form 6-K dated November 13, 2000, which are incorporated by reference in this prospectus supplement.

Profit and Loss Account

	Years ended March 31,					Unaudited six-month period ended September 30,	
	1996	1997	1998	1999	2000	1999	2000
	£m	£m	£m	£m	£m	£m	£m
Total turnover[(a)] — ongoing activities	14,470	15,021	16,039	18,223	21,903	10,316	14,394
— discontinued activities	2,066	2,358	1,372	—	—	—	—
Total turnover, including discontinued activities	16,536	17,379	17,411	18,223	21,903	10,316	14,394
Group's share of associates' and joint ventures' turnover	(2,090)	(2,444)	(1,771)	(1,270)	(3,364)	(1,084)	(4,983)
Trading between group and principal joint venture	—	—	—	—	176	—	341
Group turnover — ongoing activities	14,446	14,935	15,640	16,953	18,715	9,232	9,752
Other operating income[(b)]	103	106	372	168	242	79	153
Operating costs[(c)(d)(e)]	(11,449)	(11,796)	(12,355)	(13,305)	(15,359)	(7,383)	(8,397)
Group operating profit	3,100	3,245	3,657	3,816	3,598	1,928	1,508
Group's share of operating profit (loss) of associates and joint ventures	101	184	(196)	(342)	(400)	(224)	12
Total operating profit:							
Ongoing activities	3,081	3,209	3,436	3,474	3,198	1,704	1,520
Discontinued activities	120	220	25	—	—	—	—
	3,201	3,429	3,461	3,474	3,198	1,704	1,520
Profit on sale of fixed asset investments and group undertakings[(f)]	7	8	63	1,107	126	90	65
Net interest payable	(189)	(174)	(310)	(286)	(382)	(132)	(553)
Premium on repurchase of bonds	—	(60)	—	—	—	—	—
Profit on ordinary activities before taxation	3,019	3,203	3,214	4,295	2,942	1,662	1,032
Tax on profit on ordinary activities:							
Corporation and similar taxes	(1,027)	(1,102)	(977)	(1,293)	(897)	(507)	(369)
Windfall tax	—	—	(510)	—	—	—	—
Profit on ordinary activities after taxation	1,992	2,101	1,727	3,002	2,045	1,155	663
Minority interests	(6)	(24)	(25)	(19)	10	4	(71)
Profit for the financial period	1,986	2,077	1,702	2,983	2,055	1,159	592
Basic earnings per share	31.6p	32.8p	26.6p	46.3p	31.7p	17.9p	9.1p
Diluted earnings per share	31.0p	32.2p	26.2p	45.3p	30.9p	17.4p	8.9p
Dividends per share (including 1997 special dividend of 35p)	18.7p	54.85p	19.0p	20.4p	21.9p	8.7p[(*)]	8.7p[(*)]
Profit before goodwill amortization and exceptional items	3,019	3,203	2,976	3,274	3,100	1,636	1,226
Basic earnings per share before goodwill amortization and exceptional items	31.6p	32.8p	31.7p	35.0p	34.2p	17.8p	12.6p
Diluted earnings per share before goodwill amortization and exceptional items	31.0p	32.2p	31.2p	34.2p	33.4p	17.4p	12.4p

(a)	In this prospectus supplement, we use the term "turnover" in accordance with U.K. convention to refer to revenue.							
(b)	Including MCI merger break-up fee net of expenses in 1998	—	—	238	—	—	—	—
(c)	Including redundancy charges	421	367	106	124	59	13	77

	Years ended March 31,					Unaudited six-month period ended September 30,	
	1996	1997	1998	1999	2000	1999	2000
	£m	£m	£m	£m	£m	£m	£m
(d) Including exceptional costs relating to the disengagement from MCI	—	—	—	69	64	28	—
(e) Including exceptional costs relating to the proposed closure of the BT Cellnet analog network in 2000	—	—	—	—	47	—	—
(f) Including gain on MCI shares sold in 1999	—	—	—	1,133	—	—	—
* Interim dividend							

Cash Flow Statement

	Years ended March 31,					Unaudited six-month period ended September 30,	
	1996	1997	1998	1999	2000	1999	2000
	£m	£m	£m	£m	£m	£m	£m
Cash flow from operating activities	5,829	6,185	6,071	6,035	5,849	2,852	2,763
Dividends from associates and joint ventures	5	7	5	2	5	2	5
Returns on investments and servicing of finance	(150)	(220)	(160)	(328)	(163)	(186)	(410)
Taxation	(784)	(1,045)	(1,886)	(630)	(1,311)	(250)	(140)
Capital expenditure and financial investment	(2,500)	(2,820)	(3,108)	1,046	(3,752)	(1,859)	(6,245)
Acquisitions and disposals	(132)	(252)	(1,501)	(1,967)	(6,405)	(3,156)	(5,207)
Equity dividends paid	(1,138)	(1,217)	(3,473)	(1,186)	(1,364)	(799)	(863)
Cash inflow (outflow) before management of liquid resources and financing	1,130	638	(4,052)	2,972	(7,141)	(3,396)	(10,097)
Management of liquid resources	(1,317)	(504)	2,247	(2,447)	1,236	1,364	(5)
Financing	215	(224)	1,794	(458)	5,959	2,205	10,276
Increase (decrease) in cash for the period	28	(90)	(11)	67	54	173	174
Decrease (increase) in net debt for the period	1,319	849	(3,860)	3,146	(6,582)	(2,845)	(9,940)

Balance Sheet

	At March 31,					Unaudited At September 30,	
	1996	1997	1998	1999	2000	1999	2000
	£m	£m	£m	£m	£m	£m	£m
Intangible fixed assets	—	—	—	742	5,777	1,390	11,106
Tangible fixed assets	16,496	16,802	17,252	17,854	18,163	18,224	19,057
Fixed asset investments	1,057	1,273	1,708	1,832	5,878	4,258	8,520
Net current liabilities	(106)	(2,667)	(2,637)	(495)	(7,115)	(1,898)	(14,453)
Total assets less current liabilities	17,447	15,408	16,323	19,933	22,703	21,974	24,230
Loans and other borrowings falling due after one year	(3,322)	(2,693)	(3,889)	(3,386)	(5,354)	(4,188)	(6,399)
Provisions for liabilities and charges	(1,267)	(1,391)	(1,426)	(1,391)	(1,056)	(1,550)	(1,176)
Minority interests	(180)	(208)	(223)	(216)	(498)	(636)	(590)
Total assets less liabilities	12,678	11,116	10,785	14,940	15,795	15,600	16,065
Total equity shareholders' funds	12,678	11,116	10,785	14,940	15,795	15,600	16,065
Total assets	23,536	25,062	23,285	27,962	37,588	30,673	47,098

U.S. GAAP

	Years ended, or at, March 31,					Unaudited six-month period ended, or at, September 30,	
	1996	1997	1998	1999	2000	1999	2000
	£m	£m	£m	£m	£m	£m	£m
Income before taxes	2,774	3,326	2,791	3,745	2,096	1,458	361
Net income	1,806	2,149	1,447	2,589	1,393	990	170
Basic earnings per ordinary share	28.8p	33.9p	22.7p	40.2p	21.5p	15.3p	2.6p
Diluted earnings per ordinary share	28.4p	33.6p	22.3p	39.3p	21.0p	14.9p	2.6p
Basic earnings per ADS	£2.88	£3.39	£2.27	£4.02	£2.15	£1.53	£0.26
Diluted earnings per ADS	£2.84	£3.36	£2.23	£3.93	£2.10	£1.49	£0.26
Total assets	26,183	27,239	27,951	29,323	38,481	31,918	47,817
Ordinary shareholders' equity	13,010	11,588	12,615	13,674	13,634	13,865	13,170

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the company's audited financial statements and notes thereto included in our Annual Report on Form 20-F for the year ended March 31, 2000 and our unaudited Form 6-K dated November 13, 2000, which are incorporated by reference in this prospectus supplement. The company's financial statements have been prepared in accordance with U.K. GAAP, which differs in certain respects from U.S. GAAP. For a summary of the principal differences between U.K. GAAP and U.S. GAAP as they are relate to the company, see the notes to the financial statements in our Annual Report on Form 20-F, which is incorporated by reference in this prospectus supplement. Unless otherwise noted, and except for share and per share data, all amounts are British pounds sterling in millions.

Half Year Results to September 30, 2000

Sir Iain Vallance, Chairman of BT, said:

"The marked turnover growth in the half year reflects BT's success in implementing its strategy, which is delivering rapid growth in Europe and Japan. In the half year we finalised our purchase of Esat in Ireland, gained full control of Telfort in Holland and reached an agreement which will allow us to take control of Viag Interkom in Germany.

"Total operating profit, before goodwill amortisation and exceptional items, in the half year was £1,779 million compared with £1,768 million last year. Earnings per share declined from 17.9 pence to 9.1 pence reflecting higher interest and goodwill charges as a result of acquisition of businesses and the payments for third generation mobile licences. As anticipated, our net debt has risen to £18.7 billion.

"The interim dividend of 8.7 pence per share has been maintained, reflecting the company's overall performance and pending its restructuring."

BT's results for the half year and second quarter to September 30, 2000 are summarized in the table below.

	Results for Second Quarter to September 30, 2000		Results for Half Year to September 30, 2000	
	2000	1999	2000	1999
	£m	£m	£m	£m
Total turnover	7,603	5,329	14,394	10,316
EBITDA	1,573	1,686	3,091	3,276
Total operating profit before goodwill amortization and exceptional items	903	901	1,779	1,768
Net interest payable	314	69	553	132
Profit before taxation	471	890	1,032	1,662
Profit after taxation	295	618	663	1,155
Earnings per share	4.2p	9.6p	9.1p	17.9p
Earnings per share before goodwill amortization and exceptional items	5.9p	9.1p	12.6p	17.8p
Interim dividend per share	—	—	8.7p	8.7p

Results

BT's total turnover increased to £14,394 million in the six months to September 30, 2000. Total operating profit before goodwill amortization and exceptional items grew by 0.6 per cent. to £1,779 million. Earnings before interest, tax, depreciation and amortization ("EBITDA") declined by 5.6 per cent. to £3,091 million in the six months, with a major part of this decline being accounted for by the transfer of operations to the Concert global venture in January 2000. BT's net interest charge rose by £421 million to £553 million as a consequence of the acquisitions made over the past year and the payment for the third generation mobile licenses. Profit before goodwill amortization, exceptional items and tax amounted to £1,226 million for the six months, compared with £1,636 million in the first half of last year. Earnings per share were 12.6 pence before goodwill amortization and exceptional items and 9.1 pence after charging these items, compared with 17.8 pence and 17.9 pence in the prior period, respectively. There remains intense competition both in the United Kingdom and elsewhere.

In the second quarter to September 30, 2000, BT's total turnover grew to £7,603 million. Total operating profit before goodwill amortization and exceptional items was virtually unchanged at £903 million. Profit before goodwill amortization, exceptional items and tax amounted to £589 million, compared with £832 million in the second quarter of last year. Earnings per share were 5.9 pence before goodwill amortization and exceptional items and 4.2 pence after charging these items, compared with 9.1 pence and 9.6 pence in the prior period, respectively.

Dividend

The Board has declared an interim dividend of 8.7 pence per ordinary share payable on February 12, 2001 to BT shareholders on the register on January 3, 2001. This dividend, absorbing £571 million, is unchanged from last year's interim dividend, reflecting the overall performance of BT and pending the restructuring of the group.

April Restructuring Announcement

In April 2000, we announced a restructuring whereby the group and its ventures would be managed through four global businesses together with the U.K. operations and the Concert global venture. The four global businesses, BT Wireless, BT Ignite, BTopenworld and Yell began operations on July 1, 2000, as planned.

Concert

In January 2000, Concert, the global communications joint venture between BT and AT&T, began operations and BT transferred its international traffic, its business with selected multinational customers and its international products for business customers, together with BT's existing Concert Communications business, into the global venture. As a consequence group turnover has been reduced overall by approximately £470 million in the six months. Total turnover, including BT's proportionate share of its ventures, has however, increased by around £550 million in the six months as a result of the establishment of Concert, reflecting the greater level of AT&T's business introduced into the global venture. The transfer will have adversely affected group operating profit and group EBITDA by approximately £90 million and £130 million in the six months, respectively.

Turnover

BT's total turnover grew by £4,078 million to £14,394 million in the six months. Of this growth, around £2 billion arises from BT's investment in Japan Telecom and our joint interest in the J-Phone mobile companies. A further £550 million of the growth in turnover stems from our Concert global venture with AT&T established in January 2000. Acquisition of our interests in Esat, Telfort and other companies has added another £420 million to the total turnover in the six months.

Fixed-network call volume growth at 5 per cent. on a twelve-month moving average to September 30, 2000 compares with 7 per cent. for the year to March 31, 2000. We are continuing to experience strong growth in fixed to mobile calls and internet related calls but this is being offset by a decline in traditional geographic call volumes due to mobile phone substitution and intense competition from other U.K. operators. Significant price reductions on national calls introduced in October 1999 and enhanced call allowances included in residential customers' line rentals had an adverse effect on call turnover. Fixed-network call turnover in the United Kingdom declined by 4.9 per cent. to £2,849 million in the six months, 2 per cent. of which was due to the transfer of multinational customers to the Concert global venture.

Business line connections grew by 5.5 per cent. in the six months to September 30, 2000 while residential lines continued to show a small decline in numbers. Overall, BT's system size grew by 1.8 per cent. in the twelve months. Turnover from exchange lines in the United Kingdom grew by 2.5 per cent. to £1,777 million in the six months; the transfer of multinational customers to the Concert global venture had a 3 per cent. negative effect on this increase.

Mobile communications turnover rose by 21 per cent. to £1,265 million. The increase was mainly due to the growth in outgoing calls made by BT Cellnet's customers and the acquisition of Esat Digifone in March 2000. Turnover from sales to other operators has risen by £345 million to £1,270 million in the six months mainly through an increased level of U.K. transit traffic handled by BT.

The other sales and services category of turnover includes Syncordia Solutions, Syntegra and broadcast, conference and other advanced services. It also includes our non-mobile communication services outside the United Kingdom. The growth of 9.2 per cent. in turnover to £1,363 million in the six months is mainly due to underlying growth in these services and the acquisitions of control in Esat, Telfort and Clear Communications, offset by the effect of the transfer of BT's Concert services into the global venture last January. Underlying growth of other sales and services is around 20 per cent.

Other Operating Income

BT provides administrative and other services to Concert drawing on BT people and resources. The income from this totalled £89 million in the six months to September 30, 2000.

Operating Costs

BT's operating costs increased by 13.7 per cent. in the six months to September 30, 2000. Excluding goodwill amortization, operating costs rose by 11.6 per cent. Approximately two thirds of this increase was accounted for by the acquisition of businesses.

Payments to other telecommunication operators increased by 27 per cent. mainly due to higher transit traffic between U.K. operators passing through BT's network and the strong growth in fixed to mobile calls as well as the consequences of the acquisitions.

Goodwill amortization rose to £167 million in the six months mainly reflecting BT's acquisitions of the BT Cellnet minority interest in November 1999, Esat in March 2000 and Telfort in June 2000. Other operating costs increased by 10.9 per cent. primarily as a result of the Esat and Telfort acquisitions. Redundancy direct costs were £64 million higher due to over 2,800 managers leaving BT under the plan announced in February 2000. In addition, the leavers caused approximately £370 million of incremental liabilities in the BT Pension Scheme. These costs are not charged in the group profit and loss account in the period, in accordance with U.K. accounting standards. Including the managers who left in the fourth quarter of the last financial year, BT has successfully accomplished its target for a 3,000 reduction.

Ventures

BT's share of its ventures' operating results before goodwill amortization improved to a profit of £104 million in the six months from a loss of £199 million in the first half of last year. This improvement is largely due to the acquisition of interests in Japan Telecom and the J-Phone mobile companies and the establishment of the Concert global venture. Viag Interkom's operating losses included in these results amounted to £134 million for the six months and are running at about the same level as in the previous year. Goodwill amortization attributable to the ventures rose to £92 million in the six months.

Interest

Net interest, including BT's share of its ventures' interest charge, rose by £421 million to £553 million in the six months. Of the total charge, £113 million relates to ventures and £440 million arose in the BT group. Group operating profit before goodwill amortization in the six months provided interest cover of 3.8 times. This cover reduced to 3.3 times in the second quarter and is expected to reduce further in the second half of the year. The increase in the group's interest charge is a consequence of the debt incurred by the group to finance its recent acquisitions and the third generation mobile licenses.

Taxation and Minority Interests

The tax charge of £369 million represents an effective rate of 28.5 per cent. of profit before tax and goodwill amortization. The minority interests in the results of the six months of £71 million are primarily attributable to outside interests in the J-Phone mobile companies and I.Net.

Acquisitions

During the six months ended September 30, 2000, BT completed the acquisition of a significant indirect interest in regional Japanese wireless companies (the J-Phone companies), acquired the 50 per cent. interest in Telfort owned by its venture partner, and gained a further 17 per cent. interest in Telenordia. We have also announced the proposed acquisition of a further 45 per cent. controlling interest in Viag Interkom.

BT's indirect interests in the J-Phone cellular companies are mainly through J-Phone Communications Co Limited which holds more than 50 per cent. of the equity in these companies following a share issue in early May 2000. BT and Japan Telecom together own 74 per cent. of J-Phone Communications Co Limited. BT's overall economic interest in its Japanese investments is around 20 per cent.

In June 2000, BT acquired the 50 per cent. of Telfort it did not already own for £1.2 billion from the Dutch railways. The consideration was paid on July 5, 2000. In September 2000, BT increased its existing 33 per cent. interest in Telenordia to 50 per cent. for Euro 154 million (£96 million). Telenor similarly increased its stake to 50 per cent. BT and Telenor are considering the listing of Telenordia which is based in Sweden.

In April 2000, BT won a third generation mobile license in the U.K. auction. The payment of £4.03 billion for the license was made in May 2000. A third generation license in the Netherlands was awarded to Telfort in July 2000 for £267 million. In August, Viag Interkom won a third generation license in Germany. During the six months, BT has continued to share in funding the development of Viag Interkom to a total of £2,566 million, principally for our 45 per cent. share of its third generation license.

Capital Expenditure

Capital expenditure on plant, equipment and property totalled £2,045 million in the six months. Work continues on enhancing the U.K. fixed network to enable customers to benefit from new wave communications technologies. We are also investing heavily in BT Cellnet's mobile network.

Cash Flow and Net Debt

Cash flow from operating activities amounted to £2,763 million in the six months. The net cash outflow on acquisitions of £5,207 million consisted mainly of the further funding of Viag Interkom, including its third generation license, and the Esat and Telfort acquisitions.

In April 2000, BT issued a £250 million retail price index-linked eurobond repayable in 2025. We have financed the majority of our requirements during the six months by drawing on commercial paper and medium-term note programs under which approximately £15.1 billion was outstanding at September 30, 2000, an increase of £10.2 billion since March 31, 2000.

Gearing at September 30, 2000 stood at 113 per cent. with net debt of £18,739 million compared with £8,700 million at March 31, 2000.

BT's Business Rates

BT is to receive a refund of approximately £250 million following a five-year legal action to reduce its Cumulo rating assessment in England and Wales. The refund will be recognized in the financial statements when it is received. BT reached agreement with the U.K. Government after challenging the rateable valuations on which it was charged rates for its network assets, such as its ducts, poles and cables in the access and core networks.

The agreement also covers future rates. In the 2002 financial year, BT will pay around £100 million less than the current financial year's £310 million rates expenses for its network assets in England and Wales.

BT is appealing against similar assessments in Scotland and Northern Ireland.

Viag Interkom

On August 17, 2000, BT announced that it had reached an agreement which will enable it to take control of Viag Interkom in 2001. This agreement allows BT to buy from E.ON its 45 per cent. interest in Viag Interkom by means of a call option priced at Euro 7.25 billion (£4.3 billion) payable in the middle of 2001. E.ON has a put option priced slightly lower for exercise in early 2001. BT currently owns 45 per cent. of Viag Interkom and Telenor owns the remaining 10 per cent. interest. A separate agreement has been reached with Telenor under which it may decide to sell its interest in Viag Interkom, or BT may decide to buy it in due course.

Viag Interkom was awarded a third generation mobile license in Germany for DM 16.5 billion (£5.13 billion). The license is for two 10 MHz blocks of spectrum. The UMTS network is due to become operational in 2002. BT funded its current 45 per cent. share of the license fee, amounting to £2,324 million, in early September 2000. We shall be funding a second 45 per cent. share when we acquire control of Viag Interkom in 2001.

Airtel

Under an agreement announced in June 2000, BT has agreed to support Vodafone in acquiring further shares in Airtel and, should Vodafone's holding exceed 55 per cent., then BT has the option to acquire the excess. Vodafone announced on July 17, 2000 that, subject to regulatory approval, it had agreed to acquire further shares in Airtel which would increase its holding to 65.2 per cent.

BT Retail and Wholesale

BT Retail and Wholesale achieved an operating profit of £1,759 million in the six months on turnover of £7,084 million. BT Retail's turnover is mainly derived from BT's U.K. fixed-network customers through the provision of fixed network call services, exchange lines and private services. BT Wholesale's external turnover is derived from other operators inter-connecting with BT's U.K. fixed network, including Concert. BT Retail is benefiting from growing internet and fixed to mobile non-geographic call volumes. BT's Surftime internet products launched on June 1, 2000 are proving to be popular with average durations more than double pay as you go calls. The demand for second residential lines remains strong. Subject to regulatory approval, BT Retail will be offering new call packages to its 20 million residential customers from December 1, 2000. These "BT Together" call packages include those providing customers with unlimited local evening and weekend phone calls of up to one hour in length per call or unlimited evening and weekend internet calls for a fee inclusive of the line rental.

Capital expenditure of £1,087 million focused mainly on developing our state-of-the-art fixed network in the United Kingdom and included a tranche of Next Generation Switches to enhance the fixed network's switching capacity. Work is progressing on the ADSL rollout program with over 600 local exchanges enabled to deliver the new broadband internet product. BT is also ahead of similar large European operators in scale deployment of leading edge, high capacity, Synchronous Digital Hierarchy and Wavelength Division Multiplexing technology.

BT Ignite

Turnover in BT Ignite was £2,130 million for the half year with an operating loss before goodwill amortization of £269 million. A major component of BT Ignite's turnover is derived from its systems integration (Syntegra) and outsourcing (Syncordia) businesses. Together these are growing at more than

20 per cent. per annum and contributed operating profits of £12 million and £25 million, respectively, before goodwill amortization. The remainder of BT Ignite's activity is principally in the fast growing new wave data product area within the United Kingdom, Ireland and continental Europe. It also includes BT's share of Japan Telecom's fixed network activities.

BT Ignite has opened 20 content hosting centers in the United Kingdom and elsewhere in Europe. Occupancy levels have already reached 64 per cent. BT Ignite's application service provider service is one of the largest in Europe and its integrated broadband enabled IP network covering nine European countries gives it unparalleled reach.

BTopenworld

BTopenworld incurred an operating loss of £188 million on turnover of £127 million in the six months. Its turnover is derived principally from its U.K. and continental European narrowband internet access products. A new broadband internet portal and Genie (BTopenworld's global mobile internet portal), two major new lines of business, made a small contribution to turnover. A significant proportion of BTopenworld's losses were incurred in the development and launch of its U.K. broadband product range and the continuing international roll out of Genie. The total number of equity internet service provider customers of BTopenworld at September 30, 2000 was approximately 2.1 million, representing growth of over 30 per cent since April 1, 2000. With over 440,000 customers on unmetered packages at October 31, 2000, BTopenworld is the United Kingdom's largest unmetered internet access provider. At September 30, 2000, Genie had over 1.2 million registrations, nearly doubling its registrations since April 1, 2000.

BT Wireless

BT Wireless achieved an operating profit of £283 million before goodwill amortization on turnover of £4,424 million in the six months. BT Wireless has 17.9 million proportional mobile subscribers of which 8.7 million are BT Cellnet's. BT Wireless is a leader in selling the new WAP (Wireless Application Protocol) data phones with currently approximately 1.6 million proportional equity customers in total, of which 570,000 are in the United Kingdom. BT Wireless has been successful in gaining third generation licenses in the United Kingdom, Germany, Holland, Spain and Japan.

The profits, principally contributed by BT Cellnet, the Japanese companies and Airtel are partially offset by losses incurred mainly by Viag Interkom, Telfort and Blu. BT Cellnet, the Japanese companies and Cegetel are the prime contributors to BT Wireless' turnover.

BT Cellnet's customer base increased by 47 per cent over the year to September 30, 2000. Its turnover grew by 18 per cent to £1,345 million for the six months. BT Cellnet's operating profit was £163 million and its EBITDA was £288 million in the six months to September 30, 2000. BT Cellnet has become the United Kingdom's leading network on international roaming coverage with agreements with operators in 118 countries.

At the same time, Viag Interkom's turnover has grown by over 50 per cent and its operating losses have remained the same as last year. It had a 2.4 million mobile customer base at September 30, 2000, with 1.1 million net additions in the six months.

Yell

Yell contributed an operating profit before goodwill amortization of £117 million on turnover of £364 million in the six months. The proposed listing of Yell's shares is on course to be completed by the end of the current financial year.

Concert

Concert achieved an operating profit before goodwill amortization of £212 million on turnover of £2,861 million. BT has a 50 per cent equity interest in the global venture with AT&T.

Results for Financial Years ended 2000, 1999 and 1998

BT's earnings of 31.7 pence per share for the year ended March 31, 2000 (the 2000 financial year) compare with 46.3 pence for the 1999 financial year and 26.6 pence for the 1998 financial year. Exceptional items have affected earnings in each of these years and goodwill amortization in the last two years. Of the earnings in the 2000 financial year, 0.1 pence per share represented net exceptional income. In the 1999 financial year, net exceptional income amounted to 11.6 pence per share mainly relating to the sale of the group's investment in MCI Communications Corporation in September 1998. Earnings for the 1998 financial year were affected by net exceptional charges of 5.1 pence per share, relating to the windfall tax, partially offset by a fee received relating to the termination of the then-planned BT/MCI merger. Goodwill amortization, on acquisitions completed after April 1, 1998 when BT adopted the new U.K. financial reporting standard on goodwill ("FRS 10"), adversely affected earnings by 2.6 pence per share in the 2000 financial year and by 0.3 pence per share in the 1999 financial year. Before goodwill amortization and exceptional items, earnings of 34.2 pence per share for the 2000 financial year compare with an equivalent 35.0 pence and 31.7 pence for the 1999 and 1998 financial years, respectively.

The results for the 2000 financial year reflect the adverse effect which competitive pressures have had on our operating margins in the U.K. fixed-voice telephony and mobile markets. The results also reflect the costs of meeting increased customer demand, particularly for mobile communications, and of growing new areas of business. In both the 2000 and 1999 financial years, BT benefited from the strong growth in demand for the group's products and services. Internet and mobile phone usage expanded rapidly and this led to increased turnover and, in the 1999 financial year, increased profit. In the 2000 and 1998 financial years, the buoyant U.K. economy had a beneficial effect on the results. Our ventures in North America, continental Europe and Asia Pacific which we have established, or in which we have acquired interests, in the past three years, are contributing significantly to our turnover growth. However, the initial losses incurred by many in their development stages are, as anticipated, adversely affecting the group's results. We continue to be affected by the tight regulatory regime in the United Kingdom. Price reductions, including those imposed by the price control formulae, totalled approximately £550 million in the 2000 financial year, following reductions of approximately £500 million in the 1999 financial year and over £750 million in the 1998 financial year.

In early January 2000, Concert, our global venture 50/50 owned with AT&T, was established. Concert has taken over a major part of our international communications activities and is managing the communication needs of a number of our multinational corporate customers. It also acquired the Concert Communications Services group (Concert Communications) from BT. As a consequence, for the last quarter of the 2000 financial year, certain of the group's former turnover is now reported as part of our proportionate share of our joint ventures' turnover. We have revised our main turnover analysis of products and services to reflect these changes. Total operating profit, including our share of ventures' results for the 2000 financial year, was not significantly affected by the formation of the venture. Also in the 2000 financial year, BT took a 30 per cent. interest, jointly with AT&T, in Japan Telecom, acquired the remaining 40 per cent. interest in BT Cellnet which it did not already own, and acquired control of Esat Telecom Group, a leading Irish communications group.

In the 1999 financial year, the group's interest in MCI, held since 1994, was sold on the completion of the MCI/WorldCom merger. We recognized a pre-tax profit of £1,133 million on this sale; this followed the £273 million fee we received in November 1997 on the announcement of their agreed merger, as compensation for the break-off of the merger we had planned with MCI. We ceased equity accounting for MCI as an associate on October 31, 1997. At the same time as we disposed of our interest in MCI in September 1998, we acquired the minority interest owned by MCI in Concert Communications. BT's turnover for the years ended March 31, 1998, 1999 and 2000 is set forth in the table below.

	Years ended March 31,		
	1998	1999	2000
	£m	£m	£m
Total turnover — ongoing	16,039	18,223	21,903
Group's share of ventures' turnover — ongoing	(399)	(1,270)	(3,364)
Trading between group and principal joint venture	—	—	176
Group turnover — ongoing	15,640	16,953	18,715
Other operating income	372	168	242
Operating costs	(12,355)	(13,305)	(15,359)
Group operating profit	3,657	3,816	3,598
Group's share of ventures' losses	(196)	(342)	(400)
Total operating profit	3,461	3,474	3,198
Profit on sale of fixed asset investments and group undertakings	63	1,107	126
Net interest	(310)	(286)	(382)
Profit before taxation	3,214	4,295	2,942
Taxation — ordinary	(977)	(1,293)	(897)
Taxation — windfall	(510)	—	—
Profit after taxation	1,727	3,002	2,045
Minority interests	(25)	(19)	10
Profit for the financial year	1,702	2,983	2,055
Basic earnings per share	26.6p	46.3p	31.7p
Profit before goodwill amortization, exceptional items and taxation	2,976	3,274	3,100
Basic earnings per share before goodwill amortization and exceptional items	31.7p	35.0p	34.2p

Regulation and Prices

BT has been operating under the existing retail price control from August 1, 1997, under which a cap of RPI minus 4.5 applies to the services used by the lowest 80 per cent. of BT's residential customers by bill size. This retail price control is estimated to have covered services representing about 16 per cent. of the group's turnover for the 2000 financial year. In the price control year to July 31, 2000, BT reduced its prices by 3.24 per cent., which was more than the required reduction of 3.15 per cent. The equivalent reduction in the previous control year was 0.73 per cent.

Most of BT's interconnect (network) charges to other U.K. operators are based on long-run incremental costs. There are annual reductions in these charges based on a RPI minus 8 price cap.

The Competition Commission ("CC") required BT to reduce charges from a BT line to mobile phones by around 25 per cent. in the 2000 financial year and an effective annual RPI minus 8.5 reduction for a further two years.

The regulatory environment in the United Kingdom has had, and will continue to have, a significant adverse impact on the group's turnover and operating profit. As the group has extended its activities to other countries, BT is required to consider the regulatory regimes in those countries.

Competition and the U.K. Economy

BT has a significant market share in its main U.K. markets for fixed-network calls and provision of exchange lines. Competition has eroded BT's market share significantly in key market sectors, in particular areas of the United Kingdom and for certain products and services. We estimate that BT had 64 per cent. of the market for national calls in the 2000 financial year, compared with 69 per cent. and 75 per cent. in the 1999 and 1998 financial years, respectively, and supplied 84 per cent. of the exchange lines in the United Kingdom at March 31, 2000, compared with 86 per cent. and 87 per cent. at March 31, 1999 and 1998, respectively. Additionally, we estimate that BT had 73 per cent. of the market for local calls in the 2000 financial year, compared with 78 per cent. and 84 per cent. in the 1999 and 1998 financial years, respectively.

The growth in cable operators' networks in the United Kingdom is having an adverse effect on BT's share of the residential market. In each of the last five financial years, BT has experienced a small net reduction in residential exchange line connections as a result of increasing competition from these cable operators in certain geographic areas. This small rate of reduction is expected to continue as they complete building out their networks.

In an environment of strong competition, BT Cellnet had 27 per cent. of the market based on the number of customer connections at March 31, 2000, compared with 30 per cent. at March 31, 1999 and 34 per cent. at March 31, 1998. There has also been a downward pressure on prices.

The group has seen some diversion of demand from its fixed network as a result of the growth of other licensed operators' activities. This diversion might intensify now that BT's fixed-line customers are able to pre-select their carrier, as required under a European Commission directive, from April 1, 2000.

Additionally, BT's Licence was amended in April 2000 to require BT to provide other operators with use of the lines connecting BT's local exchanges to its customers and allow operators to install equipment in BT's exchanges (local loop unbundling). This amendment is due to take effect in July 2001. This could result in further intensification of competition and have an adverse effect on BT's results.

For its operations as a whole, BT expects the competitive pressure to persist and it will continue to defend its market share vigorously and fairly.

The strength of the U.K. economy is an important determinant of BT's business volumes and the gross domestic product grew by 2.9 per cent. in the 2000 financial year, compared with 1.5 per cent. and 2.8 per cent. in the 1999 and 1998 financial years, respectively.

Restructuring

BT announced in April 2000 that it was restructuring its operations, separating the U.K. fixed-network business into two divisions and forming four new global businesses to operate and manage BT's broadband, internet, mobile and directories businesses. BT made a further announcement on November 9, 2000 that it intended to pursue listings of certain of its lines of business, to form a new U.K. network company and to create a new BT group holding company. This is explained in more detail under the heading "Business" and in the section "Segmented information" of this prospectus supplement. It has not yet been practical to prepare full financial information for these new divisions and businesses for the 2000 and prior financial years. The discussion of our results which follows therefore centers around the consideration of BT's turnover and costs as a whole.

Turnover

Total turnover in the 2000 financial year of £21,903 million includes BT's proportionate share of its ventures' turnover of £3,364 million before adjusting for trading between the Concert joint venture and the BT group. This total turnover grew by 20.2 per cent. in the 2000 financial year after growing by 13.6 per cent. in the 1999 financial year compared with the total turnover from on-going activities in the 1998 financial year. The 1998 financial year also included BT's share of MCI's turnover, while it was BT's associate, of £1,372 million. BT's acquisitions of businesses and interests in new ventures in North America, Europe and Asia Pacific, including Concert from January 2000, accounted for around a half of the increase in total turnover in the 2000 financial year and a third of the increase in the 1999 financial year.

Group turnover, excluding the ventures, grew by 10.4 per cent. to £18,715 million in the 2000 financial year after growing by 8.4 per cent. in the 1999 financial year compared with the 1998 financial year. Acquisitions in the 1999 and 2000 financial years contributed about 25 per cent. of the growth in group turnover in the 2000 financial year. The strong growth in demand for the group's products and services of approximately 11 per cent. in the 2000 financial year and approximately 12 per cent. in the 1999 financial year was partially offset by the effect of price reductions which averaged approximately 3 per cent. across the business in both the 1999 and 2000 financial years. Both mobile calls and interconnect receipts in the United Kingdom made strong contributions to the growth in group turnover in the 2000 financial year, as a result of the significant growth in BT Cellnet's mobile customer base and increased mobile usage. In the 1999 financial year, the increase in mobile and fixed-network calls contributed to the growth in group turnover.

The group's ongoing turnover is analyzed as follows:

	Years ended March 31,		
	1998(*)	1999(*)	2000
	£m	£m	£m
Fixed-network calls	5,788	6,026	5,908
Exchange lines	3,190	3,351	3,526
Mobile communications	1,089	1,400	2,170
Receipts from other operators	1,249	1,417	1,974
Private services	1,131	1,140	1,135
Customer premises equipment supply	896	870	847
Yellow Pages and other directories	466	491	642
Other sales and services	1,831	2,258	2,513
Group turnover	15,640	16,953	18,715
Share of ventures' turnover	399	1,270	3,364
Trading between group and principal joint venture	—	—	(176)
Total turnover	16,039	18,223	21,903

(*) Figures for the 1998 and 1999 financial years have been restated to conform with the method of classification used in the 2000 financial year. For an explanation of the changes in the presentation of BT's financial statements, see the notes to the financial statements in our Annual Report on Form-20F which is incorporated by reference in this prospectus supplement.

Turnover from fixed-network calls declined by 2.0 per cent. to £5,908 million in the 2000 financial year after growing by 4.1 per cent. in the 1999 financial year compared with the 1998 financial year. Fixed-network calls comprise all calls by customers made from fixed lines in the United Kingdom, including outbound international calls. In the 2000 financial year, call volume growth was more than offset by the effect of significant price reductions in contrast to the previous year where the price reductions were outweighed by the effect of strong volume growth.

Price reductions had an impact on turnover from fixed-network calls for all the years under review. In the 2000 financial year, the principal reduction was the 25 per cent. cut in fixed to mobile call prices from the end of April 1999 as required by the CC. Other reductions included enhanced discounts and lower *Freefone* and *Lo-call* prices charged to other service providers. In the 1999 financial year, the main reductions related to lower prices charged to service providers and lower national and fixed to mobile call prices. The combined effect of the price changes to fixed-network calls totalled over £530 million in the 2000 financial year, which was equivalent to a 9 per cent. reduction in call prices following falls of 3 per cent. and 6 per cent. in the previous two years.

The main volume growth in fixed-network calls in the 2000 financial year was derived from a significant increase in calls to mobile phones and the increased use of the internet. In the 1999 financial year, similar factors were also behind the increase in calls over BT's fixed-network, particularly in the second half of that year. The call volume growth of 7 per cent. in the 2000 financial year was at the same level as that in the 1999 financial year. While internet-related local calls are growing very strongly, traditional fixed-network local calls are declining in volume, which we attribute partly to mobile phone substitution and also to intense competition. We expect this trend to continue.

Turnover from exchange lines grew by 5.2 per cent. in the 2000 financial year to £3,526 million after increasing by 5.0 per cent. in the 1999 financial year. The increased turnover was the combined result of the growth in business lines and rental price increases. The number of business lines grew by 5.9 per cent. in the 2000 financial year and by 6.1 per cent. in the 1999 financial year, with ISDN services being the main driver behind this growth. The numbers of residential lines declined slightly in both years due to the competition from cable operators largely offset by the high number of BT customers installing second lines. Overall, BT's total fixed-network lines grew by 1.6 per cent. in the 2000 financial year to 28.5 million and by 1.4 per cent. in the 1999 financial year to 28.1 million.

Mobile communications turnover, mainly comprising calls charged to and subscriptions from customers, increased by 55 per cent. in the 2000 financial year to £2,170 million, following growth of 29 per cent. in the previous financial year. Nearly half of the increase in turnover in the 2000 financial year was contributed by the BT Cellnet Lumina (formerly Martin Dawes Telecommunications) and DX Communications businesses acquired in 1999. Otherwise, the turnover increases in the 2000 and 1999 financial years reflected the 64 per cent. and 47 per cent. growth in BT Cellnet's customer-base in the two years, respectively, offset by the effect of reductions in mobile call prices. Nearly 2.9 million new customers were connected to BT Cellnet's network in the 2000 financial year, following the 1.4 million connected in the 1999 financial year, substantially due to the success of the "pre-paid" mobile phone introduced in the second half of the 1999 financial year. BT Cellnet continued to attract significant numbers of customers on post-pay contracts in the 2000 and 1999 financial years. BT Cellnet had 7.4 million customer connections at March 31, 2000, of which over half were on a post-paid contract basis. Since early 2000, there has been a migration of customers from post-paid contracts to pre-paid arrangements.

Turnover from receipts from other operators for interconnect charges increased from £1,249 million in the 1998 financial year to £1,417 million in the 1999 financial year and to £1,974 million in the 2000 financial year. This turnover mainly comprises the income BT generates from other U.K. operators for passing calls from one operator to another and for terminating calls on BT's network. It also includes receipts from international operators for incoming international and transit calls which BT received before this activity was transferred to Concert in early January 2000. From that date, this turnover includes receipts from Concert for terminating incoming calls into the United Kingdom and handling Concert's U.K. multinational customer domestic traffic. The increases in turnover, in the 2000 and 1999 financial years, primarily reflect the growing market share of BT's U.K. competitors, particularly mobile phone operators, and the increasing level of traffic flowing through and into BT from their networks. There has been a large corresponding increase in the payments made by BT to these operators for traffic passing to their networks. Although growth has been rapid, with volumes growing at 38 per cent. for the 2000 financial year, and 34 per cent. for the 1999 financial year, BT's interconnect business does not provide us with the same overall level of margin as our U.K. retail business.

Private services turnover, at £1,135 million in the 2000 financial year, has remained broadly static over the three years under review. Demand for digital private circuit services continued at a high level in all three years, supported by a significant migration from analog circuits. Price reductions, however, have prevented any significant change in turnover over the three financial years.

BT's Yellow Pages and other directory businesses include the Yellow Book U.S. business acquired in August 1999. Turnover of £642 million has grown by 31 per cent. in the 2000 financial year, of which two thirds is due to this acquisition. The U.K. business has grown by about 9 per cent., partly reflecting the good growth in the economy. In the 1999 financial year, turnover grew by 5.4 per cent., due mainly to an increased volume of advertising in the United Kingdom.

Turnover from BT's other sales and services has grown by 11.3 per cent. in the 2000 financial year to £2,513 million after growing by 23 per cent. in the 1999 financial year. Much of the growth in both financial years is attributable to the BT Syncordia Solutions outsourcing business and Syntegra, which provides systems integration services, both in the United Kingdom and worldwide. Videoconferencing, and broadcasting and other multimedia services also contributed strongly to the growth in turnover. This category also included sales by Concert Communications up to early January 2000 before its transfer to the new Concert joint venture.

BT's share of its ongoing ventures' turnover rose from £399 million in the 1998 financial year to £1,270 million in the 1999 financial year and to £3,364 million in the 2000 financial year, including sales by the ventures to BT. This growth was due to our establishment and acquisition of interests in ventures in North America, Europe and Asia Pacific over the past three years. Acquisitions of interests in the 2000 financial year contributed £1,228 million of the growth. In the 2000 financial year, £3,164 million of the total arose from ventures located outside the United Kingdom, compared with £1,149 million in the 1999 financial year and £333 million in the 1998 financial year. The principal contributors in the 2000 financial year were Cegetel (£727 million), Concert (£583 million from January 2000), Japan Telecom (£501m from September 1999), Viag Interkom (£296 million), Airtel (£250 million) and a full year's contribution from LG Telecom (£200 million). In the 1999 financial year, the main contributors were Cegetel (£578 million), Airtel (£157 million), Viag Interkom (£82 million) and LG Telecom (£81 million from October 1998). In the 1998 financial year, the main contributor was Cegetel (£185 million from September 1997).

Other Operating Income

As part of the arrangements for the establishment of Concert, BT has been seconding staff and providing administrative and other services from its launch in early January 2000. The income from these services totalled £79 million in the 2000 financial year. Concert has been setting up its own administration during the course of 2000. In the 1998 financial year, BT received U.S.$465 million as the break-up fee and partial reimbursement of expenses incurred under the BT/MCI merger agreement. This receipt, net of relevant expenses incurred in that financial year, was included as an exceptional profit of £238 million in other operating income for that year.

Operating Costs

Total operating costs increased by 15.4 per cent. in the 2000 financial year to £15,359 million after increasing by 7.7 per cent. in the 1999 financial year. As a percentage of group turnover, operating costs, excluding goodwill amortization, decreased from 79.0 per cent. in the 1998 financial year to 78.5 per cent. in the 1999 financial year but increased to 81.6 per cent. in the 2000 financial year. In the 2000 and 1999 financial years, exceptional costs of £111 million and £69 million were incurred, respectively, which primarily related to Concert Communications' disengagement from MCI and the prospective closure of BT Cellnet's analog cellular phone network in October 2000. These exceptional costs are considered separately in the table below and the discussion which follows.

	Years ended March 31,		
	1998	1999	2000
	£m	£m	£m
Staff costs	3,917	3,871	4,283
Own work capitalized	(424)	(428)	(498)
Depreciation	2,395	2,568	2,704
Goodwill amortization	—	—	89
Payments to telecommunication operators	1,600	2,106	3,068
Other operating costs	4,867	5,119	5,602
Total operating costs before exceptional costs	12,355	13,236	15,248
Exceptional costs	—	69	111
Total operating costs	12,355	13,305	15,359

Staff costs increased by 10.6 per cent. in the 2000 financial year to £4,283 million, after rising by 1.9 per cent. in the 1999 financial year, if a non-recurring charge in the 1998 financial year is excluded. In the 2000 financial year, the numbers employed in the group increased by 12,100 to 136,800 at March 31, 2000. This net increase included 5,000 individuals employed outside the United Kingdom mainly through acquisitions, 2,500 former agency workers now working for BT, and around 4,500 people needed in the United Kingdom to meet increased demand and to roll out the ADSL broadband product. These increases and the impact of pay awards caused the increase in staff costs in the 2000 financial year. In the 1999 financial year, the impact of pay awards was partially offset by reduced overtime worked and a reduction in average employee numbers. Staff costs for the 1998 financial year included a non-recurring charge of £120 million for compensation for a special dividend paid in that year. This compensation was for those employees holding unexercised rights, mainly under group-wide sharesave schemes.

The allocation for the employee share ownership scheme, included within staff costs, was £59 million in the 2000 financial year. This represents 2 per cent. of the pre-tax profit for the year. The allocation for the 1999 financial year of £64 million represented 2 per cent. of pre-tax profit for that year, before the gain on the sale of MCI shares. The allocation in the 1998 financial year was also £64 million and represented 2 per cent. of pre-tax profit for that year.

The depreciation charge increased by 5.3 per cent. in the 2000 financial year to £2,704 million after increasing by 7.2 per cent. in the 1999 financial year, reflecting BT's continuing high level of investment in its networks.

Goodwill amortization in respect of subsidiaries and businesses acquired since April 1, 1998, when BT adopted FRS 10, amounted to £89 million in the 2000 financial year. Of the total, £50 million relates to the BT Cellnet minority acquisition in November 1999.

Payments to other telecommunication operators grew by 46 per cent. in the 2000 financial year to £3,068 million after increasing by 32 per cent. in the 1999 financial year. The growth in these payments was primarily as a result of the growing number of calls originating on or passing through BT's networks and terminating on U.K. competitors' fixed and mobile networks. This is due, in particular, to the increase in mobile phone usage and internet-related calls. The payments include those made to Concert for the delivery of BT's outgoing international calls from early January 2000 and those made by BT to international operators for outgoing and transit calls prior to that time. Also included are payments made to mobile phone operators on behalf of BT Cellnet Lumina and DX Communications' customers.

Other operating costs, which rose by 9.4 per cent. in the 2000 financial year to £5,602 million and by 5.2 per cent. in the 1999 financial year, include the maintenance and support of the networks, accommodation and marketing costs, the cost of sales of customer premises equipment and redundancy costs. The costs incurred in supporting the high growth of BT Cellnet was the main factor behind the increase in costs in the 2000 and 1999 financial years. Also, in the 1999 financial year, a currency gain of £87 million from investing the proceeds of the MCI shares was offset against these costs.

Redundancy costs of £59 million were incurred in the 2000 financial year, compared with £124 million in the 1999 financial year and £106 million in the 1998 financial year. The redundancy costs in the 2000 financial year include £32 million for the costs of the initial 1,100 of a target of 3,000 managers taking early voluntary release as part of BT's plans to improve efficiency. These 3,000 managers left BT by the end of September 2000. In view of a pension fund surplus, which for accounting purposes includes the provision for pension costs in the group's balance sheet, and in accordance with BT's accounting policies, redundancy charges for the three financial years 2000, 1999 and 1998 do not include the costs of the incremental pension benefits provided to early retirees, which totalled £140 million, £279 million and £224 million, respectively.

From the time Concert Communications became wholly owned by BT in September 1998, work has been undertaken to ensure that the group's business became fully independent of MCI. The costs involved in this work were £64 million incurred in the 2000 financial year and £69 million in the 1999 financial year. These costs are shown as exceptional items in the group profit and loss account. The costs for the 2000 financial year include £47 million for the closure of BT Cellnet's analog network in October 2000. During the summer of 2000, all remaining customers on the network were invited to move to BT Cellnet's GSM digital network.

Group Operating Profit

Group operating profit for the 2000 financial year of £3,598 million was £218 million lower than in the previous year, which was £159 million higher than in the 1998 financial year. Before goodwill amortization, the exceptional costs in the 2000 and 1999 financial years and the exceptional income in the 1998 financial year, described above, group operating profit in the 2000 financial year was 2.2 per cent. lower than in the 1999 financial year. This, in turn, was 13.6 per cent. higher than that in the 1998 financial year. The reduction in profit in the 2000 financial year was caused by reduced call prices, increased lower margin wholesale business with other operators, the cost of developing new products and areas of business and increased expenditure on improving the quality of service to our customers. We expect these factors to continue. The increase in profit in the 1999 financial year was due to the strong growth in demand for the group's products and services, particularly as a result of internet and mobile phone usage.

Associates and Joint Ventures

The group's share of its ventures' operating losses totalled £316 million in the 2000 financial year, before £84 million goodwill amortization. The comparable losses, before goodwill amortization, amounted to £325 million in the 1999 financial year and £221 million in the 1998 financial year, excluding MCI's results. The principal loss in all three years arose in Viag Interkom in developing its networks to compete in the German market. BT's share of these losses was £240 million, £193 million and £151 million in the 2000, 1999 and 1998 financial years, respectively. Telfort also incurred losses in all three years as it has been developing its fixed and mobile networks in the Netherlands. In the 2000 financial year, other losses were mainly incurred by British Interactive Broadcasting (BIB) in the United Kingdom and Albacom in Italy. BIB launched its new Open interactive digital TV service in the United Kingdom in autumn 1999 after a period of development. Ventures returning operating profits in the 2000 financial year included Concert, Airtel in Spain, Cegetel in France, Japan Telecom and Maxis Communications in Malaysia. In the 1999 financial year, the other losses were incurred by Albacom, BIB and LG Telecom in the Republic of Korea, which has been a BT joint venture since October 1998. In the 1998 financial year, other losses were principally those incurred by Cegetel in France, which has been a BT associate since September 1997.

As a consequence of the termination of the BT/MCI merger agreement and the then-prospective MCI/WorldCom merger, BT ceased treating MCI as an associate on October 31, 1997. The group's pre-tax profit for the 1998 financial year incorporated a loss of £27 million, representing BT's share of MCI's results up to that date, which included a special charge of £63 million.

Total Operating Profit

Total operating profit for the 2000 financial year at £3,198 million, including BT's share of the operating results of its ventures, decreased by £276 million compared with the 1999 financial year after increasing by £13 million over the 1998 financial year. Before goodwill amortization and exceptional items, total operating profit for the 2000 financial year was 2.2 per cent. lower than that in the previous financial year, which was 10.5 per cent. higher than the result for the 1998 financial year. The fall in total operating profit in the 2000 financial year and the rise in profit in the 1999 financial year were due to the factors explained above. After taking into account our share of Concert's operating profit, total operating profit in the 2000 financial year has not been significantly affected by the formation of Concert.

Profit on Sale of Fixed Asset Investments

Following the completion of the MCI/WorldCom merger in September 1998, BT sold its holding in MCI to WorldCom under the agreement made in November 1997. The proceeds totalled £4,159 million on which an exceptional profit of £1,133 million was realized in the 1999 financial year, after taking into account the goodwill written off on BT's interest in MCI, originally acquired in September 1994.

Interest Charge

In the 2000 financial year, the group's net interest charge at £382 million was £96 million higher than in the preceding year. The higher charge is due to an increase in BT's share of its ventures' interest costs and the cost of funding the acquisitions made by BT during the 2000 financial year, including the BT Cellnet minority acquisition. In the 1999 financial year, the group's net interest charge at £286 million was £24 million lower than in the preceding year. The group benefited in that year from the interest derived from the short-term investments funded with the MCI share sale proceeds. Interest cover for the 2000 financial year represented 8.8 times total operating profit before goodwill amortization and compares with interest cover of 12.2 in the 1999 financial year and 11.2 in the 1998 financial year. The net interest charge has increased in the first half of the 2001 financial year and is expected to increase further following the significant increase in net debt during the 2000 financial year and the early part of the 2001 financial year.

Profit and Taxation

The group's profit before taxation for the 2000 financial year was £2,942 million, compared with £4,295 million in the 1999 financial year and £3,214 million in the 1998 financial year. The higher profit in the 1999 financial year was due substantially to the gain on the MCI shares sold. Before exceptional items and goodwill amortization, profit before taxation in the 2000 financial year was 5.3 per cent. lower than the comparable profit in the 1999 financial year. This was 10.0 per cent. higher than in the 1998 financial year. The lower profit in the 2000 financial year was due to the lower group operating profit and higher interest charges, explained above.

The tax charge of £897 million for the 2000 financial year as a percentage of profit before taxation was 30.5 per cent., compared with an ordinary tax charge of 30.1 per cent. for the 1999 financial year and 30.4 per cent. for the 1998 financial year. The 2000 effective tax rate compares with the standard 30 per cent. corporation tax rate for the year. The group's tax charge for the 1999 financial year was an effective 31.0 per cent. of pre-tax profit, excluding the MCI share sale gain, which was effectively subject to a lower tax charge under U.K. capital gains tax legislation. The group's ordinary tax charge for the 1998 financial year was an effective 31.5 per cent. of pre-tax profit, excluding the MCI merger break-up fee which again was similarly subject to a lower tax charge. These effective tax charges reflect the higher 31 per cent. rate of corporation tax set for the 1999 and 1998 financial years. The tax charge for the 1998 financial year included BT's £510 million share of the U.K. Government's windfall tax on certain privatized companies, imposed in July 1997. The tax was paid in two equal £255 million instalments in December 1997 and December 1998.

Earnings and Dividends

Basic earnings per share, based on the profit for the 2000 financial year of £2,055 million, were 31.7 pence. Earnings per share for the 1999 and 1998 financial years were 46.3 pence and 26.6 pence, respectively. Earnings before goodwill amortization and exceptional items were 34.2 pence per share for the 2000 financial year, in comparison with 35.0 pence for the 1999 financial year and 31.7 pence for the 1998 financial year. Diluted earnings per share were not materially different.

	Years ended March 31,		
	1998	1999	2000
	£m	£m	£m
Net cash inflow from operating activities	6,071	6,035	5,849
Dividends from ventures	5	2	5
Net cash outflow for returns on investments and servicing of finance	(160)	(328)	(163)
Tax paid	(1,886)	(630)	(1,311)
Net cash inflow (outflow) for capital expenditure and financial investment	(3,108)	1,046	(3,752)
Net cash outflow for acquisitions and disposals	(1,501)	(1,967)	(6,405)
Equity dividends paid	(3,473)	(1,186)	(1,364)
Cash inflow (outflow) before management of liquid resources and financing	(4,052)	2,972	(7,141)
Management of liquid resources	2,247	(2,447)	1,236
Net cash inflow (outflow) from financing	1,794	(458)	5,959
Increase (decrease) in cash in the year	(11)	67	54
Decrease (increase) in net debt in the year	(3,860)	3,146	(6,582)

Dividends paid for the 2000 financial year of 21.9 pence per share represent a 7.4 per cent. increase on the previous year and are covered 1.6 times by earnings before goodwill amortization and exceptional items. These dividends comprise the interim dividend of 8.7 pence per share, paid in February 2000, and the final dividend of 13.2 pence per share which was paid on September 18, 2000 to shareholders on the register on August 18, 2000. These dividends absorbed £1,426 million.

BT paid dividends of 20.4 pence per share for the 1999 financial year and dividends of 19.0 pence per share in respect of the 1998 financial year.

Financing

Net cash inflow from operating activities of £5,849 million in the 2000 financial year compared with £6,035 million in the 1999 financial year and £6,071 million in the 1998 financial year. Special contributions to the main pension fund, described below, of £230 million in the 2000 financial year and £200 million in the 1999 financial year were paid, consequently reducing the cash inflow in those years.

Tax paid in the 2000 financial year totalled £1,311 million. This included the first quarterly instalments under the new corporation tax regime in the United Kingdom. Tax paid in the 1999 financial year, which totalled £630 million, included the second and final windfall tax instalment of £255 million. Less U.K. corporation tax was paid in the 1999 financial year than in either of the preceding or succeeding years because of the advance corporation tax ("ACT") on a special dividend paid in September 1997. In contrast, the tax paid in the 1998 financial year, which totalled £1,886 million, was particularly high because of £561 million ACT paid in respect of the special dividend and £255 million paid as the first windfall tax instalment.

The U.K. Government has changed the pattern of corporation tax payments from April 1999 by requiring companies to pay tax in quarterly installments starting at the half-year stage in each financial year. The changes are being phased in over the 2000 to 2002 financial years, and replace the former main single corporation tax payment made nine months after the financial year end and ACT payments associated with dividends. The effect of these accelerated payment arrangements will be to increase the tax payments to be made by the group in the 2001 and 2002 financial years.

Net cash outflow of £3,752 million for capital expenditure and financial investment in the 2000 financial year was principally for capital expenditure on plant and equipment of £3,568 million. In the 1999 financial year, there was a net cash inflow of £1,046 million which mainly comprised the £4,159 million proceeds of the MCI shares sold in September 1998 offset by expenditure on plant, equipment and property totalling £3,220 million. The net cash outflow of £3,108 million in the 1998 financial year was principally for capital expenditure.

Net cash outflow on acquisitions totalled £6,405 million in the 2000 financial year. This included £3,014 million on the acquisition of the minority interest in BT Cellnet, £1,254 million invested jointly with AT&T in Japan Telecom and £659 million in Canadian interests, jointly owned with AT&T. The net cash outflow on acquisitions of £1,967 million in the 1999 financial year was principally the acquisition of MCI's minority interest in Concert Communications, the investments in LG Telecom and Maxis Communications as well as additional funding of the European ventures discussed below. The group's investment in Cegetel in September 1997 represented the main part of the net cash outflow of £1,501 million in the 1998 financial year.

Equity dividends paid in the 2000 financial year totalled £1,364 million, compared with £1,186 million in the 1999 financial year. Dividends paid in the 1998 financial year amounted to £3,473 million and included a special dividend of £2,244 million originally declared in September 1996.

The resulting cash outflow, before liquid resources and financing, of £7,141 million for the 2000 financial year was partly funded by the issue of new long-term financial instruments, principally two U.S. dollar eurobonds totalling $1.2 billion and a £600 million eurobond. We also drew on commercial paper programs under which approximately £4.9 billion was outstanding at March 31, 2000 and used the group's existing short-term investments. In the 1999 financial year, a net cash inflow, before liquid resources and financing, of £2,972 million was mainly applied by investing in short-term investments. In the 1998 financial year, there was a net cash outflow of £4,052 million. This was financed by the issue of new loans, principally two eurobonds totalling $2.5 billion, and by using the group's existing short-term investments.

The cash outflow for the 2000 financial year resulted in net debt increasing to £8,700 million at March 31, 2000. This was in contrast to the cash inflow for the 1999 financial year, generated mainly by the MCI share sale proceeds, which resulted in net debt falling to £953 million at March 31, 1999.

Consequently, balance sheet gearing or the ratio of net debt (borrowings net of cash and short-term investments) to shareholders' equity and minority interests stood at 53 per cent. at March 31, 2000, compared with 6.3 per cent. a year earlier.

In the 2000 financial year, the group borrowed £1,473 million in long-term loans and repaid £587 million in long-term debt. In May 1999, BT issued a £600 million 5.75 per cent. eurobond repayable in 2028 and, in October 1999, a $1.0 billion five-year 6.75 per cent. eurobond. In August 1999, BT repaid a $200 million eurobond on maturity which was refinanced by a further ten-year $200 million eurobond. On the acquisition of Esat, BT assumed approximately £550 million of debt, based on Esat's December 31, 1999 balance sheet. In the 1999 financial year, the group repaid long-term debt totalling £457 million; no significant new long-term debt needed to be raised. In the 1998 financial year, the group borrowed £1,637 million in long-term loans and repaid £338 million in long-term debt. BT issued a U.S.$1.5 billion five-year 6.75 per cent. Eurobond in April 1997 and a U.S.$1.0 billion ten-year 7 per cent. Eurobond in May 1997 in preparation for the group's cash requirements later in 1997.

In the 2001 financial year, £529 million of long-term debt falls due. In April 2000, we issued a £250 million series of 3.5 per cent. retail price index linked notes repayable in 2025. We have raised (by use of our commercial paper and medium term note programs) and will raise further significant finance in the 2001 financial year to meet the financing needs of 3G licenses won in April 2000, increased capital expenditure and acquisitions of interests in subsidiaries, joint ventures and associates and their additional funding requirements. In the first half of the 2001 financial year, we have funded our requirements through our commercial paper and medium-term financing programs. We expect to fund our additional requirements by liquidating short-term investments, financing it with further debt or, if appropriate, public offerings and net debt at March 31, 2001 is expected to exceed 150 per cent. of shareholders' funds as a consequence.

Treasury Policy

The group has a centralized treasury operation. Its primary role is to manage liquidity, funding, investment and the group's financial risk, including risk from volatility in currency and interest rates and counterparty credit risk. The treasury operation is not a profit center and the objective is to manage risk at optimum cost.

The Board sets the treasury department's policy and its activities are subject to a set of controls commensurate with the magnitude of the investments and borrowings under its management. Counterparty credit risk is closely monitored and managed within controls set by the Board. Derivative instruments, including forward foreign exchange contracts, are entered into for hedging purposes only.

For further information on our treasury policy, our capital resources and our foreign currency exposure, see the notes to the financial statements in our Annual Report on Form-20F which is incorporated by reference in this prospectus supplement.

Capital Resources

The directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future and therefore they continue to adopt the going-concern basis in preparing the financial statements.

At March 31, 2000, the group had cash and short-term investments of £2,304 million. At that date, £5,121 million of short-term debt was outstanding, comprising principally £4,884 million of borrowings under BT's commercial paper programs. In addition, the group had unused committed short-term bank facilities, amounting to approximately £5,800 million at March 31, 2000, in support of a commercial paper program or other borrowings. The group also has substantial uncommitted short-term bank facilities.

At March 31, 1999, the group had cash and short-term investments of £3,380 million. At that date, £372 million of short-term debt was outstanding. In addition, the group had unused committed short-term bank facilities, amounting to approximately £150 million at March 31, 1999.

The decrease in short-term investments and increase in short-term borrowings in the 2000 financial year was required to finance BT's acquisitions of investments during the year.

The group had £8,700 million net debt at March 31, 2000, an increase of £7,747 million in the year. Net debt increased substantially during the course of the 2000 financial year, primarily as a result of acquisitions.

Foreign Currency and Interest Rate Exposure

Most of the group's current turnover is invoiced in pounds sterling, and most of its operations and costs arise within the United Kingdom. The group's foreign currency borrowings, which totalled £7,304 million at March 31, 2000, are used to finance its operations. Of these borrowings, approximately £6.2 billion was swapped into sterling. Cross currency swaps and forward foreign exchange contracts have been entered into to reduce the foreign currency exposure on the group's operations and the group's net assets. The group also enters into forward foreign exchange contracts to hedge investment, interest expense, purchase and sale commitments. The commitments hedged are principally U.S. dollar, euro and yen commitments. As a result of these policies, the group's exposure to foreign currency arises mainly on the residual currency exposure on non-U.K. investments in its ventures and on any imbalances between the value of outgoing and incoming international calls with Concert. To date, these imbalances have not been material. As a result, the group's profit has not been materially affected by movements in exchange rates, with the exception of the second half of the 1999 financial year when we had a large U.S. dollar position with the short-term investments resulting from the MCI proceeds. We progressively closed out this exposure in the period to March 31, 1999 as the U.S. dollar strengthened against sterling and, as noted above, we recorded a gain of £87 million, which was included in the profit for the 1999 financial year.

The majority of the group's long-term borrowings has been, and is, subject to fixed interest rates. The group has entered into interest rate swap agreements with commercial banks and other institutions to vary the amounts and period for which interest rates are fixed. At March 31, 2000, the group had outstanding interest rate swap agreements and gilt locks (based on forward sales of the U.K. Government treasury stock) with notional principal amounts totalling £2,073 million. At March 31, 1999, the group had outstanding interest rate swap agreements with notional principal amounts totalling £1,371 million.

At the start of the 2000 financial year, the group was not significantly exposed to changes in interest rates. However, with the greater use of floating rate debt in the 2000 financial year, this has increased the group's sensitivity to changes in short-term sterling interest rates. Based upon the composition of net debt at March 31, 2000, a one percentage point increase in interest rates would increase the group's annual net interest expense by less than £55 million. This compares with a decrease in the annual net interest expense of £35 million based on the composition of net debt at March 31, 1999 using the same variation in interest rates. The change in effect over the year was due to the change from an excess of short-term investments over short-term borrowings at the beginning of the 2000 financial year to an excess of short-term borrowings over short-term investments at its end.

The group is not significantly exposed to changes in currency rates. A 10 per cent. strengthening in sterling against major currencies would cause the group's net assets at March 31, 2000 to fall by less than £500 million, with insignificant effect on the group's profit. This compares with a fall of less than £250 million in net assets based on the group's net assets at March 31, 1999 using the same variation in currency rates. The increase in effect over the year was due to the greater proportion of the group's net assets deployed in non-U.K. countries following its significant investments in the year. Because the foreign exchange contracts are entered into as a hedge of sales and purchases, a change in the fair value of the hedge is offset by a corresponding change in the value of the underlying sale or purchase.

Capital Expenditure

Capital expenditure on plant, equipment and property totalled £3,680 million in the 2000 financial year, compared with £3,269 million in the 1999 financial year and £3,030 million in the 1998 financial year. Work continues on enhancing the intelligence of the network to enable customers to benefit from advanced services and improving the network's capacity to carry high-speed data. We installed ADSL equipment in over 400 U.K. exchanges during the 2000 financial year as the first phase of our plan to roll-out this equipment to all our major local exchanges. We are progressively changing the fixed network from one based on switched technologies to a modern network based on the internet protocol (IP). BT Cellnet has continued improving the quality and capacity of its digital GSM network.

In April 2000, we won one of the five 3G licenses in the U.K. Government's auction for £4.03 billion, which we paid in May 2000. This 20-year license should enable BT, coupled with its existing GSM spectrum, to deliver the next generation mobile multimedia service to its customers.

The group expects capital expenditure in the 2001 financial year to be approximately £4.5 billion. We plan to spend around £4 billion over the 2001 and following two financial years on our IP backbone network, in providing web hosting facilities and continuing the expansion of our networks to meet the projected broadband demand. We also intend building new city fibre networks, wireless local loops and deploying ADSL in the United Kingdom and, as regulation permits, across continental Europe. BT expects that future capital expenditure will be provided from net cash inflows from operating activities and by external financing.

Acquisitions

During the 2000 financial year, BT completed a number of acquisitions of businesses or interests in ventures, located both within and outside the United Kingdom. The total amount invested, including deferred considerations and further funding of existing ventures, was £8,755 million. The investment in the new Concert global venture, in the form of assets contributed, is additional to this.

On November 10, 1999, we completed the acquisition of the 40 per cent. minority interest in BT Cellnet held by Securicor. The total cost of this acquisition, which was announced in July 1999, was £3,173 million, including legal fees and other expenses. Goodwill of £2,997 million arose on the transaction which is being amortized over a 20-year period.

Following an announcement in April 1999, BT jointly acquired with AT&T a 30 per cent. interest in Japan Telecom for £1,254 million on August 31, 1999. BT has an economic interest of 20 per cent. Concurrent with this transaction, BT sold its Japanese subsidiary to Japan Telecom. Goodwill arising on the interest of Japan Telecom of £432 million is being amortized over a 20-year period.

In Canada, BT acquired an effective 9 per cent. economic interest in AT&T Canada. In conjunction with AT&T, we jointly purchased 33 per cent. of Rogers Cantel Mobile Communications, one of Canada's leading mobile operators, leaving BT with an effective interest of approximately 17 per cent. The consideration paid by BT on August 16, 1999 for these two investments totalled £659 million.

On January 5, 2000, BT and AT&T announced the financial completion of Concert, the global communications joint venture. This venture, originally announced in July 1998, was formed by BT transferring the majority of its cross-border international network assets, its international traffic, its business with selected multinational customers, together with Concert Communications, and AT&T transferring similar assets and businesses. The unrealized profit on transferring these assets of £159 million has been recognized in BT's statement of recognized gains and losses.

In August 1999, we completed the acquisition of the Yellow Book U.S. classified directory advertising business based in New York for a total consideration of £415 million. In the same month, we acquired Control Data Systems (renamed Syntegra (USA)), a U.S.-based e-commerce and systems integration company, for £213 million. In May 1999, we acquired a 20 per cent. interest in SmarTone of Hong Kong, a leading provider of digital mobile communications services, for £241 million.

Under an agreed offer made in January 2000 and separate transactions with two of its major shareholders, we acquired control of Esat Telecom Group (Esat) at the end of March 2000, following regulatory clearance, for a consideration of £1,520 million. We paid the majority of the consideration in April 2000 after the financial year end. This leading Irish communications group holds a 49.5 per cent. interest in Esat Digifone, Ireland's second largest mobile phone operator. We acquired a further 1 per cent. in this company in January 2000, so it also became part of the BT group at the end of March 2000. Telenor, the Norwegian communications operator, is the other shareholder in Esat Digifone, with a 49.5 per cent. interest. BT has agreed with Telenor to allow it to exchange its interest in Esat Digifone for a 33 per cent. interest in Esat and also to purchase from us such additional shares in that group as would give Telenor an almost 50 per cent. interest in Esat at a total price of U.S.$624 million plus interest. If Telenor does not exchange its interest in Esat Digifone in this way, we will purchase its interest for U.S.$1,238 million. We expect Telenor to decide its course of action before the end of the 2001 financial year.

In the 1999 financial year, BT acquired from MCI its 24.9 per cent. interest in Concert Communications for £607 million. Goodwill of £568 million arose on this transaction. As explained above, Concert Communications was transferred to the global venture with AT&T in early January 2000.

In March 1999, the group, through its then 60 per cent.-owned subsidiary BT Cellnet, completed the acquisition of Martin Dawes Telecommunications Holdings (MDT) (renamed BTCellnet Lumina), then the largest independent mobile telecommunication services provider in the United Kingdom. The consideration totalled approximately £130 million, of which £90 million was deferred. In December 1999, an additional £27 million was paid in acquiring a minority interest in MDT's main operating subsidiary. Goodwill of £186 million arose on this combined acquisition and is being amortized over 10 years.

The group invested £1,326 million in the 1999 financial year on acquiring interests in associates and joint ventures and providing their further funding. The most significant investments were made in October 1998 in the Asia-Pacific region. A 33.3 per cent. stake in Maxis Communications (formerly Binariang) of Malaysia was acquired for £279 million and a 23.5 per cent. interest in LG Telecom in the Republic of Korea was acquired for £234 million. The goodwill element of these acquisitions is being amortized over 20 years under the group's new accounting policy for goodwill adopted from the beginning of the 1999 financial year. BT continued to share in funding the development of its ventures, principally Viag Interkom of Germany (£482 million) and Telfort of the Netherlands (£103 million), in the financial year.

In the 1998 financial year, the group invested over £1,650 million in acquisitions and further funding. In September 1997, the group completed its acquisition of a 26 per cent. interest in Cegetel of France for a total of £1,029 million. Over £400 million was invested in other European telecommunications companies in the year, primarily in Germany, Spain and the Netherlands. The goodwill arising on all of these acquisitions amounted to £869 million out of a total of £937 million, which was written off to reserves under the U.K. accounting policy in operation for that and preceding years.

Return on Capital Employed

The group made a return before goodwill amortization of 18.2 per cent. on the average capital employed in its business excluding goodwill, on a historical cost basis, in the 2000 financial year, compared with returns of 19.2 per cent. and 19.5 per cent. in the 1999 and 1998 financial years, respectively.

Pensions

An actuarial valuation of the BT Pension Scheme (BTPS), BT's main pension fund, has been carried out as at December 31, 1999. This actuaries report states that the valuation balance sheet shows that the fund's assets at that date of around £30 billion cover approximately 97 per cent. of the fund's liabilities using the assumptions adopted for funding purposes. Different assumptions are to be adopted for calculating the company's pension cost in the 2001 and following financial years under the UK accounting standard SSAP24. Using these assumptions, the assets of the fund at December 31, 1999 broadly matched the actuarial liabilities of members' past service to that date.

The previous actuarial valuation of the BTPS was carried out as at December 31, 1996. This valuation revealed that the fund's assets of £19.9 billion at that date covered just over 100 per cent. of the funds liabilities. This actuarial valuation took into account the effect of the U.K. Government's measures in July 1997 to end pension funds' ability to reclaim the tax credit associated with U.K. companies' dividends.

The group's annual pension charges for the 2000, 1999 and 1998 financial years of £167 million, £176 million and £177 million, respectively, have been based on the December 1996 valuation. These charges take into account the amount of the pension provision which had been established over recent years in the group's accounts and which stood at £629 million at March 31, 2000. Additionally, under U.K. accounting standards, the cost of providing incremental pension benefits for early leavers in each of these three financial years has not been charged against the profit in the period in which people agree to leave, since the latest actuarial valuation of the pension fund, together with the pension provision, indicated a surplus.

The group's ordinary contribution into the fund has been at 9.5 per cent. of employees' pensionable pay during each of the three financial years under review. In addition, the company paid special contributions into the fund of £230 million in March 2000 and £200 million in March 1999 in part because of redundancies.

The number of retired members and other current beneficiaries in the pension fund has been increasing in recent years and, at December 31, 1999, was approximately 45 per cent. higher than the number of active members. Consequently, BT's future pension costs and contributions will depend to a large extent on the investment returns of the pension fund and could fluctuate in the medium term.

We expect the pension cost charged in the group's accounts, which amounted to £167 million in the 2000 financial year, to approximately double in the 2001 financial year. This is, in part, because of the general trend towards longer life expectancy. There will also be a smaller amortization in the future of the combined pension fund position and pension provision held in the BT group balance sheet. The amortization credit netted in pension costs amounted to £163 million in the 2000 financial year. We expect that the cash contributions payable to the fund will rise in the 2001 financial year, from the 9.5 per cent. of pay that we have paid in recent years, to around 11.5 per cent. In addition, BT has agreed with the trustees of the BTPS to pay annual special contributions of £200 million in order to fund the shortfall in asset cover at December 31, 1999 noted above.

Following a High Court judgment made in October 1999, the BTPS is liable to pay additional benefits to certain former employees of the group who left under voluntary redundancy terms. These were former employees, in managerial grades, who had joined the group's business prior to December 1, 1971. The value of the additional benefits at March 31, 2000 is estimated at around £200 million.

Impact of Inflation

In accordance with a requirement of BT's main license, the group's annual accounts for the 2000 financial year prepared on a current cost basis were published in September 2000. These accounts showed that the group's current cost profit before tax was £2,189 million, compared with £2,942 million under the historical cost convention. The group's current cost total assets at March 31, 2000 were £40,408 million, compared with £37,588 million in its historical cost accounts.

Environment

When removing old analog exchange equipment from buildings, BT recycles the metal content and takes special care to properly dispose of any hazardous materials. Although BT receives proceeds from the sale of recovered materials, this is more than offset by the cost of dealing with hazardous materials, contracting and planning their removal and preparing the released site for further development. BT believes that the total cost of dealing with these hazardous materials will not be significant.

Segmented Information

BT essentially operates as a unitary business, providing an integrated range of telecommunications products and services. Accordingly, BT does not publish separately the operating profit for the various sources of turnover described above. In the 2000 financial year, approximately 95 per cent. of the group's turnover was generated by operations in the United Kingdom, compared with 96 per cent. in the 1999 and 1998 financial years. Including BT's proportionate share of its ventures, which are mainly located outside the United Kingdom, 82 per cent. of total turnover was generated in the United Kingdom, compared with 90 per cent. in the 1999 financial year and 94 per cent. of total turnover from continuing operations in the 1998 financial year.

BT is required under its main license to publish disaggregated financial information for various activities of the group, which have been used as the basis of charges paid by other telecommunication operators in the United Kingdom for the use of BT's network. The activities presented separately in the regulatory financial statements do not necessarily correspond with any businesses separately managed, funded or operated within the group. The results set out in these statements for the 2000, 1999 and 1998 financial years showed that the group's operating profit is derived predominantly from fixed network calls, after taking account of an operating deficit arising on the provision of exchange lines.

BT complies with U.S. accounting standard SFAS No.131 which requires financial information to be analyzed in a similar manner to that used by management in managing the business. It should be appreciated that this information is used internally as part of the group's system of management and budgetary control over income and costs and the absolute results for any one particular element are not necessarily meaningful in isolation. In particular, capital resource allocation is planned and managed using capital project systems which are centralized in nature.

In April 2000, we announced a restructuring whereby the group and its ventures would be managed in four global businesses and two U.K. operating divisions, together with the Concert global venture. The four global businesses began operations on July 1, 2000 as planned. They are: BT Ignite, responsible for broadband and internet networks, including ADSL in the United Kingdom and Europe and meeting the needs of business customers; BTopenworld, covering the consumer market for internet products around the world; BT Wireless, covering the group's global interests in mobile communications; and Yell, responsible for the classified directories and associated e-commerce businesses. The two U.K. operating divisions, which started operations in the fall of 2000, are a wholesale division covering the U.K. fixed network and a retail division responsible for marketing U.K. fixed-network products. On November 9, 2000, we announced that a new network company, NetCo, would be created.

Financial information on the four global businesses has been published from the second quarter of the 2001 financial year. Unaudited illustrative financial information for the 2000 and 1999 financial years is provided in the new divisional structure section of our report on Form 20-F for the 2000 financial year.

Year 2000

The Year 2000 problem arose from the inability of many computer-based systems to handle correctly the century date change and other significant dates such as February 29, 2000.

The transition into the Year 2000 went smoothly with no significant Year 2000 issues emerging. Those that did were minor and did not affect customer service. Demand on our network services in the early hours of January 1, 2000 was double that of the previous year.

The total cost of the Year 2000 program was £281 million, which was funded by displacement of other activities. The cost includes that of BT's own people. Costs incurred in the 2000 financial year were £67 million, including special overtime for the Millennium New Year.

All Year 2000-related investigation, remedial work and testing costs have been written off as incurred, as these relate to making existing computer software Year 2000 compliant.

Economic and Monetary Union ("EMU")

On January 1, 1999, a new currency, the euro, was introduced into the European Union as part of EMU and 11 participating member states established fixed conversion rates between their existing currencies and the euro. The currencies of these participating member states now exist only as subdivisions of the euro.

Most of the group's business in Europe is conducted in the United Kingdom, which is not one of the original 11 participating member states. Government policy on U.K. membership of the single currency was set out by the Chancellor of the Exchequer in a statement to the House of Commons in October 1997. The determining factor underpinning any Government decision on membership of the single currency is whether the economic case for the United Kingdom joining is clear and unambiguous. Because of the magnitude of the decision, the U.K. Government believes that, whenever the decision to enter is taken, it should be put to a referendum of the British people. The Government has said that it will produce an assessment of five relevant economic tests early in the next parliament and that both Government and business should make active preparations to give the United Kingdom the genuine option to decide to join.

BT has established a steering group, with representatives from across the group, to review the impact of the introduction of EMU. A project team acts as a coordination point to ensure consistency of approach across the group and that plans are in place to meet agreed business strategy on EMU. BT is prepared to allow customers to settle certain sterling-based bills in euros under certain circumstances.

The group carries on business in certain of the participating member states and is continuing to take appropriate steps to adapt its operations to use the euro.

BT is considering the impact of EMU on the U.K. business and the associated costs.

U.S. GAAP

The group's net income and earnings per share for the three financial years ended March 31, 2000 and shareholders' equity at March 31, 2000 and 1999 under U.S. GAAP are shown in the notes to the financial statements in our Annual Report on Form 20-F which is incorporated by reference into this prospectus supplement. Differences between U.K. GAAP and U.S. GAAP include results of the differing accounting treatment of pension costs, redundancy costs, intangible assets, goodwill, deferred taxation, capitalization of interest, financial instruments, contributing assets to joint ventures and dividends. Cash flow information under the U.S. GAAP presentation is also shown in the notes to the financial statements in our Annual Report on Form 20-F which is incorporated by reference into this prospectus supplement.

In its U.S. GAAP reconciliation statement for the 2002 financial year, BT expects to adopt SFAS No. 133 on accounting for derivative instruments and hedging activities. Under this standard, derivative instruments are required to be included in the balance sheet at fair value and certain changes in these fair values need to be recognized in the income statement. The impact of implementing this standard will be determined by market conditions after implementation and the ability to treat derivative instruments as hedges in accordance with the standard. Gross cumulative gains and losses on financial instruments treated as hedges under U.S. GAAP at March 31, 2000 were £96 million and £46 million, respectively.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements," which BT is required to adopt in its U.S. GAAP reconciliation statements by March 31, 2001. SAB 101 provides additional guidance on revenue recognition as well as criteria for when revenue is generally realized and earned. We are currently assessing the impact of SAB 101 on the U.S. GAAP reconciliations.

BUSINESS

Introduction

BT is one of the world's leading global providers of communications services.

BT's main activities include:

- the provision of fixed exchange lines and private circuits, and fixed local, national and international voice and data calls to homes and businesses in the United Kingdom;
- the supply of mobile communication services and equipment to businesses and individuals in the United Kingdom and internationally;
- the delivery of international new-wave products and services, including internet, multimedia, data transport and solutions;
- the provision of communication services in the United Kingdom to other operators;
- the supply of telecommunications equipment for customers' premises in the United Kingdom; and
- the supply of classified advertising directories in the United Kingdom and the United States.

In the financial year ended March 31, 2000, 95 per cent. of our group revenues arose from operations in the United Kingdom. Approximately 18 per cent. of total revenues (which include our proportionate share of our ventures' revenues) arose from activities outside the United Kingdom, compared with around 10 per cent. in the previous financial year.

BT aims to build shareholder value by:

- focusing on the significant potential of our large customer base, ensuring these customers are able to make the most of the unprecedented opportunities that arise as communications technologies converge and the markets in which we operate are transformed;
- focusing on those new-wave activities where we have already established a strong position, such as mobile (including 3G mobile services), internet (broadband and narrowband), e-business services and solutions;
- focusing on key areas within Western Europe and Japan;
- developing and growing our business in the United Kingdom, with a new organizational structure that will enable greater management focus and flexibility;
- structuring the group to allow separate listings of parts of the business when this is judged to be in our shareholders' best long-term interests; and
- servicing the global business market through Concert, our global joint venture with AT&T.

To achieve this, we have been investing significantly, building new, high-bandwidth networks that are essential to support our main activities, and obtaining 3G licenses in key markets in Europe and Japan. We have also been consolidating our position in our core markets outside the United Kingdom, particularly in Western Europe and Japan. We have interests in mobile and fixed-line operations, together capable of reaching about 80 per cent. of the population of Western Europe and virtually all of its major business centers.

In addition, outside of these core markets, we have interests in Hong Kong, Singapore, Malaysia, the Republic of Korea, Australia, New Zealand, India and North and Latin America.

The principal components of the group's turnover during each of the last five financial years, together with the growing significance of the proportionate share of its ventures' turnover, are shown in the table below:

Turnover summary — ongoing activities	Years ended March 31, 1996[(a)]	1997[(a)]	1998[(a)]	1999[(a)]	2000
	£m	£m	£m	£m	£m
Fixed-network calls	6,037	5,919	5,788	6,026	5,908
Exchange lines	2,907	3,043	3,190	3,351	3,526
Mobile communications	856	949	1,089	1,400	2,170
Receipts from other operators	1,133	1,094	1,249	1,417	1,974
Private services	1,074	1,131	1,131	1,140	1,135
Customer premises equipment supply	946	914	896	870	847
Yellow Pages and other directories	408	438	466	491	642
Other sales and services	1,085	1,447	1,831	2,258	2,513
Group turnover	14,446	14,935	15,640	16,953	18,715
Share of associates' and joint ventures' ongoing turnover[(b)]	24	86	399	1,270	3,364
Trading between group and principal joint venture	—	—	—	—	(176)
Total turnover — ongoing activities	14,470	15,021	16,039	18,223	21,903

(a) Figures for the 1996 to 1999 financial years have been restated to conform with the method of classification used in the 2000 financial year.

(b) Excludes associates and joint ventures no longer part of the group.

We have made a number of significant acquisitions since the beginning of the 2000 financial year in April 1999:

- In November 1999, we acquired for £3.17 billion the 40 per cent. minority interest in BT Cellnet held by Securicor.
- Together with AT&T, we acquired a 30 per cent. stake in Japan Telecom, one of Japan's largest telecommunications groups for about £1.2 billion (Yen 220 billion). Through a holding company structure, BT has an economic interest of 20 per cent. The deal was finalized in September 1999. Japan Telecom serves all types of residential and business customers and operates in the international, long-distance, data, internet and local markets in Japan. It also has significant interests in digital mobile services.
- Again with AT&T, we made two acquisitions in the Canadian telecommunications market. In August 1999, we acquired indirect equity stakes in Rogers Cantel Mobile Communications, one of Canada's leading mobile operators, for about £300 million, and AT&T Canada for about £360 million.
- In March 2000, under a public offer, we acquired control of the Republic of Ireland's Esat Telecom Group for approximately £1.5 billion. Esat operates a fixed-line network in Ireland and has a 49.5 per cent. interest in mobile operator Esat Digifone. We also acquired directly a 1 per cent. beneficial interest in Esat Digifone.
- In June 2000, we took sole control of Telfort, our Dutch joint venture, by acquiring the 50 per cent. we did not already own, for £1.21 billion (NLG 4.2 billion). Telfort provides fixed and mobile services in the Netherlands to businesses and consumers.
- In August 2000, we announced that we had agreed to take 90 per cent. control of Viag Interkom by acquiring the 45 per cent. interest held by E.ON (formerly Viag AG) for Euro 7.25 billion by way of a put option exercisable in January 2001, or for Euro 7.35 billion by way of a call option exercisable from May 2001. Viag Interkom provides fixed, mobile and internet services to businesses and consumers. Telenor, which has a 10 per cent. stake in Viag Interkom, has entered into an agreement whereby Telenor may compel BT to purchase its stake, or BT may compel Telenor to sell it to BT.

- In September 2000, we increased our stake in Swedish telecommunications operator Telenordia to 50 per cent., buying half of Tele Danmark's share in the venture for £96 million. Telenor has similarly increased its stake to 50 per cent., by purchasing the remainder of Tele Danmark's holding.

Strategic Review

In April 2000, we announced a restructuring of the group from a geographically focused organization to one of global lines of business. The objective is to improve our position in a rapidly-changing marketplace, with a sound balance between management focus, the ability to capture cross-business synergies and the flexibility to meet future needs.

On July 1, 2000, we implemented this restructuring plan by regrouping some of our activities in the United Kingdom, continental Europe and elsewhere by market sector rather than geography to form four potentially high-growth global businesses:

- **BT Wireless**, an international mobile business;
- **BT Ignite**, an international, data-centric, broadband internet protocol (IP) and solutions business;
- **BTopenworld**, a mass-market internet business; and
- **Yell**, an international directories and e-commerce business.

These businesses work alongside Concert, our global joint venture with AT&T which was launched during the 2000 financial year. Concert is a leading global communications provider for multinational business customers, international carriers and internet service providers (ISPs) worldwide. We are currently exploring ways of broadening and strengthening the scope of the relationship between BT and AT&T in business services.

On November 9, 2000, we announced a series of steps to accelerate the transformation of our business. In particular, we will:

- create a separate network company, NetCo, subject to government and regulatory approval, to focus exclusively on the needs of wholesale customers. We then intend to list up to 25 per cent. of NetCo;
- list up to 25 per cent. of Yell by March 2001 and 25 per cent. of BT Wireless in the second half of 2001;
- by the end of 2001, have developed BT Ignite into a position from which it could be listed;
- create a new BT Group holding company, which will provide greater flexibility, including the scope for further listings where advantageous to shareholders and customers;
- tighten our in-country geographic focus to within Western Europe and Japan; and
- reduce BT's net debt by £10 billion from peak levels by December 2001.

We believe that BT, after the completion of these steps, will have a set of customer-focused businesses with devolved authority, without losing the operational synergies that go with belonging to the group.

BT in the United Kingdom

The new structure

The creation of a separate network company will facilitate more focused management, both in the new NetCo and in BT Retail. This move anticipates the continued expansion of a competitive communications marketplace.

Over the next year, NetCo will be developed from the existing BT Wholesale and an asset base will be agreed. NetCo will provide telecommunications services to other telecommunications operators providers, as well as BT's own retail operations. BT Retail provides account-managed and packaged solutions to over

21 million customers, allowing business and residential customers to benefit from the full range of BT products, including mobile and e-commerce solutions.

The intention is that NetCo's wholesale business and BT Retail's business will be separate companies trading on an arm's length basis. This should increase commercial competitiveness. Full details of the split between the new NetCo and BT Retail are yet to be finalized, and are subject to negotiation with the government and the regulator.

The fixed network

Within the United Kingdom, at September 30, 2000, BT had 28.8 million customer lines (exchange line connections). About 20 million of these were residential lines, the remainder being business lines, of which 2.7 million were high-speed integrated service digital network (ISDN) lines.

In the 2000 financial year, BT's operating profit was derived predominantly from fixed-network calls in the U.K. Calls on the U.K. fixed network accounted for approximately 32 per cent. of group turnover. Fixed-network calls comprise calls within the United Kingdom and calls made from the United Kingdom to other countries. On average, about 94 million U.K. local and national calls are made every day. Call volumes continue to grow with the continuing rise in the number of calls made to mobile phones and in the level of internet usage being largely offset by a decline in traditional calls to fixed lines due to mobile phone substitution and intense competition from other U.K. operators.

Exchange line turnover comprises rental and connection charges and accounted for about 19 per cent. of group revenues in the 2000 financial year. Revenue from these activities continues to grow, mainly because of the increase in the number of business lines, particularly high-speed ISDN lines. The number of residential lines declined slightly over the year. In general, exchange line customers are charged a uniform quarterly rental per line. Charges for business lines are higher than for residential lines. Since the beginning of 1995, BT has experienced a small net reduction in the number of its residential line connections as a result of increasing competition from cable operators, particularly in towns and cities. Business connections have shown a steady increase over the same period.

Many other operators use our network to help deliver their customers' calls. This interconnect activity has increased rapidly as competition in the U.K. fixed and mobile sectors has intensified. The receipts from other operators for this activity accounted for about 11 per cent. of group revenues in the 2000 financial year.

Carrier pre-selection (CPS) is being introduced by BT to enable customers to pre-select an alternative carrier for their calls without the need to dial additional access codes. Because this requires BT to upgrade its exchange-based switches, CPS has been introduced, on an interim basis, by means of auto-diallers installed on customers' premises. It is anticipated that the exchange-based solution will be available for national and international calls by January 2001, and for all calls by January 2002, making this part of the market even more competitive.

From January 1, 2001, BT will be offering local loop unbundling. This means that other telecommunications operators will be able to use BT's copper local loops (the connections between the customer's premises and the exchange) to connect directly with their customers to provide digital subscriber line (DSL)-type broadband services. Operators will need to install their own equipment either in BT exchanges or in nearby buildings to provide this service, and significant effort by BT, Oftel and other operators has been put into planning how this additional equipment can be accommodated. This is expected to result in further intensification of competition in the telecommunications markets, in particular the broadband markets. There is further information about local loop unbundling in the Regulatory, competition and prices section of this review.

BT provides customers with private circuits, lines between fixed points reserved for the customer's exclusive use, charged at a fixed rate irrespective of usage. Revenue from these private services accounted for approximately 6 per cent. of group turnover in the 2000 financial year.

In the United Kingdom, we offer the sale or rental of a range of communications equipment, from telephones for use in the home to advanced private exchange equipment for businesses, which accounted for 5 per cent. of the group's financial turnover in the 2000 financial year. Among other services, we offer public payphones, advanced data and voice services, visual services, including distributing television material for broadcasting organizations and closed circuit television operators, and audio and videoconferencing.

Marketing and pricing

In a market as competitive as communications in the United Kingdom, effective marketing and pricing are very important. Our marketing focus has been on the launch of new services and call stimulation, both internet and voice, and we have introduced a number of competitive pricing packages with calls costing from less than 1 pence per minute at the weekends and weekday evenings.

BT has continued to reduce prices and has also simplified its price structure, while at the same time introducing new options to give customers greater choice and control over how they are charged for using our products and services. All of our residential customers (except those on special schemes for low users) now get an inclusive call allowance included as part of the standard rental.

The new BT Together range of pricing plans provides residential and smaller business customers with competitive prices, inclusive call allowances and other value features for a single monthly fee. As from September 1, 2000, customers on BT Together and BT Working Together plans also benefit from an evening and weekend calling rate of 9 pence per minute to 13 of our most popular international destinations. BT Together now has nearly seven million customers, who are showing very positive calling trends and significantly reduced churn levels compared with the remainder of the consumer customer base.

BT has also introduced the BT Commitment option to deliver competitive prices to the corporate business customer.

Building on the momentum created by BT Together, we announced the introduction of SurfTime in March 2000. SurfTime, which became available in June 2000, offers unlimited internet calls for a fixed fee. Within three months of its launch, SurfTime accounted for one quarter of BT-originated residential internet traffic.

BT Ignite — Our Data Business

BT Ignite, which operates our broadband IP business, delivers a range of services, in particular data transport, web hosting, customized e-solutions and packaged applications software. BT Ignite combines our broadband IP networks in the United Kingdom and continental Europe, with the aim of opening the way to significantly faster and more efficient on-line communications for our business users, ISPs and other carriers. Our solutions businesses, Syntegra and Syncordia Solutions, operate globally.

Together with our joint venture partners, BT Ignite has a pan-European fiber network which provides coverage to the top 100 commercial centers and has around 50,000 route kilometres of fiber cable across the United Kingdom, France, Germany, Italy, the Netherlands, Switzerland, Belgium, Ireland and Spain. The network is currently expanding to cover Sweden, Denmark and Norway and, in 2001, it is planned to move into Austria, Slovakia, the Czech Republic and Hungary, increasing to around 70,000 route kilometres.

Among the value-added services BT Ignite offers is content hosting. BT Ignite already has 20 content hosting centers throughout Europe and, in conjunction with AT&T and Concert, will have control of or access to 44 around the globe.

BT Ignite Application Services provides software over IP networks to large and small companies, generally on a per user rental basis. Application Services has developed partnerships with key software providers, including Microsoft, Lotus, Commerce One and Verisign to provide a range of e-mail, collaborative, e-commerce and security applications.

BT Ignite's international solutions businesses, Syntegra and Syncordia Solutions, two distinct but complementary businesses, between them had turnover of £1.5 billion, including work done for other parts of

BT, in the 2000 financial year. As a global consulting and information business, Syntegra is a market leader in creating new systems, which, through the use of the internet and associated technologies, are transforming business-to-business relationships around the world. Its acquisition for £213 million of Control Data Systems (renamed Syntegra (USA)) in August 1999 extended Syntegra's global capabilities and reach, and Syntegra now has customers in more than 60 countries.

In April 2000, it was announced that Syntegra will take the lead for BT in helping to create the *U.K. on-line* portal, through which people will be able to deal electronically with the U.K. Government.

Syncordia Solutions is a leading provider of integrated information and communications solutions. Underpinned by the internet and associated technologies, these solutions are based on end-to-end managed IP networks and the provision of e-business and e-CRM (electronic customer relationship management) applications on these networks.

BT Ignite is responsible for the deployment of broadband services based on DSL technology in the United Kingdom (selling wholesale DSL products to service providers and corporate clients) and continental Europe. These services will turn a normal copper telephone line into a high-speed digital access line — providing residential and business people with fast access to high value, multimedia rich content.

In the United Kingdom, over 600 exchanges have already been provisioned for ADSL (asymmetric digital subscriber line) — covering around 37 per cent. of U.K. homes and businesses. This is due to increase to 50 per cent. of households in the United Kingdom by the end of the 2001 financial year. BT Ignite's broadband services enable service providers to offer their own customer base fast access to their content and applications. They also enable a corporate customer to provision its teleworkers with fast, remote access to its private networks. The first broadband services, launched in June 2000, provide a business quality of service to end users. In August 2000, BT Ignite added a consumer quality variant to the portfolio — this is the first step towards mass-market deployment of broadband services in the United Kingdom.

BTopenworld — Our Mass-Market Internet Business

BTopenworld brings together, in a single mass-market business, all of our U.K. ISPs and portals and our interest in Open, a digital interactive television joint venture. It also includes a number of BT's international wholly owned ISPs, as well as BT's interests in the ISPs of its ventures across the world.

Internet services earn us revenue directly, through subscriptions, e-commerce and advertising, and indirectly, through increased network usage.

At September 30, 2000, BTopenworld had approximately 2.1 million equity internet service provider customers, representing growth of over 30 per cent. since April 1, 2000. With over 440,000 customers on unmetered packages at October 31, 2000, BTopenworld is the U.K.'s largest unmetered internet access provider.

BTopenworld has responsibility for BT's wholly owned ISP in the United Kingdom, BT Internet — a business providing unlimited off-peak internet access for a flat fee.

BTopenworld also manages BT's other internet ventures in the United Kingdom:

- our 50/50 joint venture with LookSmart, a leading U.S.-based on-line navigation company, which creates and distributes internet portal services throughout Europe and Asia;
- ExciteUK, our joint venture with Excite, in which we have a 42 per cent. stake; and
- our virtual ISP services, which provide internet access service on a wholesale basis for companies such as ONdigital, Tesco and WH Smith.

On November 30, 2000, it was announced that BT and United News & Media are to seek a new owner for LineOne, their jointly owned ISP.

Internationally, BTopenworld exercises direct management control over a number of BT's wholly owned internet businesses including:

- Infinito, an internet access service for the Italian market, which has more than 110,000 active customers; and
- Arrakis, an ISP operating in Spain, with more than 65,000 active customers.

(Active customers are those who use the service within a given number of days — usually 30).

BT's other joint venture internet offerings currently include:

- Planet-Interkom in Germany, in which BT has a 45 per cent. stake, with an option to acquire up to 90 per cent. during the first half of 2001;
- Telenordia in Sweden, in which BT owns a 50 per cent. interest;
- iSm@rt in Hong Kong, the ISP of SmarTone, in which BT has a 20 per cent. stake;
- MaxisNet in Malaysia, launched in October 1999, in which BT has a 33 per cent. stake; and
- StarHub Internet in Singapore, in which BT has an 18 per cent. stake.

On November 30, 2000, BT sold its 34 per cent. stake in Sunrise Communications in Switzerland to Tele Danmark for the equivalent of £460 million in cash.

BTopenworld is responsible for Genie, which has pioneered mobile internet services in Europe. Genie was the first mobile ISP to be introduced in Europe, the first to introduce a commercial wireless application protocol (WAP) service, and the first to launch WAP e-mail. At September 30, 2000, Genie had over 1.2 million registrations, nearly doubling its registrations since April 2000. Genie services are being rolled out by a number of BT's partners and operations outside the U.K.

BTopenworld is also responsible for BT's holding in Open with British Sky Broadcasting and others. Subject to regulatory approval, BT's holding in this company will be reduced to 19.9 per cent. More than one million customers have registered to use their television set and the set-top box provided by Open to access Opentalk, an e-mail service provided by BTopenworld.

BTopenworld plans to offer its customers the Personal openworld Portal (PoP), a single point from which customers can access services via mobile phone, personal computer or TV. BTopenworld has launched mass-market broadband portal and high-speed internet services aimed at consumers, small businesses and teleworkers, providing high-speed, always-on access to the internet and a range of highly personalized, content-rich and interactive applications.

BT Wireless — Our Mobile Business

BT Wireless groups together all of BT's interests in mobile assets worldwide — including BT Cellnet, BT's portfolio of European, Asia-Pacific and North American mobile assets, and the Advance alliance with AT&T. At present, BT Wireless has operations in 14 countries, with nearly 18 million equity subscribers.

The U.K. mobile phone market continues to grow rapidly and remains extremely competitive with great pressure on prices.

BT's revenue from U.K. mobile communications accounted for about 12 per cent. of group turnover in the 2000 financial year.

At the end of September 2000, BT Cellnet had 8.7 million customers, an increase of 47 per cent. from September 1999. The majority of the gross additions were on a pre-paid basis. Generally, post-pay contract customers provide higher revenues per user than those on a pre-paid basis.

Directly controlled shops are playing an increasingly important part in BT Cellnet's marketing and sales activities. In April 2000, BT Cellnet purchased the 60 per cent. of The Mobile Phone Store that it did not already own, for £45 million. The retail chain has 129 stores in the United Kingdom and its purchase brought the total number of retail outlets under BT's direct control up to almost 300. The move followed the purchase of two cellular retail outlets, BT Cellnet Lumina (formerly Martin Dawes Telecommunications), in the 1999 financial year, and DX Communications, in the 2000 financial year.

BT Cellnet has continued to enlarge its U.K. digital cellular global system for mobile communications (GSM) network and, in June 2000, launched the world's first general packet radio service (GPRS) technology. GPRS supports higher-speed mobile data services, including the Genie WAP service. The launch of GPRS is targeted initially at the corporate market.

In the U.K. Government's 3G license auction, which concluded in April 2000, BT obtained a license for £4.03 billion to operate 3G mobile services. In addition to conventional voice, fax and data services, 3G offers the prospect of mobile high-resolution video and multimedia services, such as mobile office services, virtual banking and on-line billing, home shopping, video conferencing, on-line entertainment and internet services.

The 3G license, coupled with our existing GSM spectrum, should enable us to deliver mobile multimedia services at competitive prices, and should help us build on our leading position in the mobile internet market.

BT Wireless, in conjunction with its joint venture partners, has won 3G licenses in Germany, the Netherlands, Spain and Japan.

In addition to Telfort Mobile (with 752,000 customers), Rogers Cantel (with 2.4 million customers) and our share in Esat Digifone (which has 824,000 customers), mentioned above, our mobile activities outside the United Kingdom currently include the following ventures:

- in Germany, Viag Interkom, which has 2.4 million customers and in which we currently have a 45 per cent. interest. We have agreed to acquire the 45 per cent. interest held by E.ON (formerly Viag AG) by way of a put or call option exercisable in 2001;
- in France, SFR (part of Cegetel, in which we have a 26 per cent. stake), which has 9 million customers;
- Airtel, Spain's second-largest GSM licensee, in which we have a 17.8 per cent. stake, and which has 6.6 million customers;
- Blu in Italy, which holds Italy's fourth GSM mobile license. Blu's mobile service was launched in May 2000 and has 360,000 customers;
- SmarTone, which has over 900,000 customers in Hong Kong;
- Maxis Mobile in Malaysia, of which we own a third and which has 1.2 million customers;
- LG Telecom, in which BT has a 24.12 per cent. stake, which is South Korea's third-largest mobile phone operator with 3.6 million customers; and
- Bharti Cellular in New Delhi, India, of which BT owns 44 per cent., has about 247,000 customers.

In May 2000, we increased our interest in J-Phone Communications in Japan, so giving us a substantial involvement in one of the three significant companies operating in the world's second-largest mobile market and an equity interest in a number of regional Japanese mobile phone companies. Japanese industry continues to be innovative in applications and equipment, and the early award of 3G licenses by the Japanese government to mobile operators, including J-Phone, means that Japan will be early to market with broadband mobile services. J-Phone will start to launch 3G services in 2001. J-Phone currently has over nine million customers.

We are working with other major companies to extend the range and scope of our mobile offerings. In September 1999, we announced the formation of Advance, a strategic alliance with AT&T aimed at creating seamless mobile communications services around the world. This alliance is focusing on developing new services for global travellers and multinational customers.

The Advance alliance launched three products in the summer of 2000:

- *Worldconnect*, which is the first product to deliver seamless worldwide roaming across both GSM and TDMA (time division multiple access) networks;
- *Pocketnet*, which provides users real time synchronized access to corporate e-mail through mobile phones; and
- *Worldview*, which offers a management solution for international corporate customers managing mobile accounts in multiple countries.

BT is working with Microsoft and AT&T to conceive, develop and deploy new wireless capabilities, services and devices for consumer and business markets around the world, exploiting the capabilities of GPRS and 3G technology. BT and its mobile ventures have a number of other agreements with other companies to provide mobile broadband applications. Specifically, we are working with Panasonic in Japan in the development of next generation audio and visual services.

Yell — Our International Directories and E-commerce Business

Yell is a leading provider of classified advertising directories and associated products and services,* principally to SMEs and consumers in the United Kingdom and the United States. Yell's products and services provide business leads by connecting buyers and sellers through an integrated portfolio of advertising solutions, including printed, internet- and telephone-based directories. In addition, Yell provides a growing range of business-to-consumer and business-to-business products and services through new media, such as the internet and digital television.

Yell distributes approximately 46 million copies of directories to households and businesses, and publishes 1.9 million advertisements on behalf of 540,000 advertisers. The revenues from Yell products and services, including Yellow Book USA, represented about 3 per cent. of group turnover in the 2000 financial year.

Following the acquisition of Yellow Book USA in August 1999, for £415 million ($665 million), Yell has established a substantial presence in the United States, the most valuable classified advertising market in the world. In the United Kingdom, in addition to Yellow Pages and Business Pages directories, the portfolio includes: *Yell.com*, Yell's internet destination site giving access to a range of products and services that are also delivered through digital television and mobile phone technologies; *Talking Pages*, an operator-assisted finder service, targeted at people on the move; and *The Business Database*, an information and analysis provider to the direct marketing industry. Through web site design and hosting services, banner advertising, search and e-business facilities, and alliances with on-line service providers, Yell has developed an internet customer base and significant e-commerce expertise.

Concert

On January 5, 2000, BT and AT&T, the U.S. telecommunications operator, combined major parts of their international resources to form Concert, a major global communications joint venture owned equally by the parents.

The new company is shaped from the combination of the trans-border assets and operations of BT and AT&T, including their international networks, all their international traffic, and their international products for business customers. Supporting Concert, BT, AT&T and their family of joint ventures is a common networking architecture planned to provide seamless service to customers.

Concert's frame relay network reaches every major city in the United States and the United Kingdom and extends to over 200 cities in 60 countries. Its global public network directly reaches 237 countries. Concert also has investments in 100 undersea cables totalling more than 470,000 kilometres globally. In addition to using BT and AT&T's extensive networks in the United Kingdom and the United States, Concert has built a high-speed IP backbone network, spanning 21 cities in 17 countries.

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*Source: Simba International Report 1999, at 195 and 197.

This backbone supports a wide range of internet access, internet backbone and IP virtual private network services. Concert's IP network is interconnected with BT and AT&T's domestic IP backbone networks, which distribute Concert services in the U.S. and U.K. markets. Work is underway to converge Concert's network, infrastructure and managed services with those of AT&T Global Network Services, previously IBM Global Network. The combined portfolio of IP, data and virtual private network services will be offered through Concert, AT&T and BT Ignite distribution channels, particularly for delivery in Europe, Asia Pacific and Latin America.

When this integration is completed, the Concert IP backbone network will extend to more than 60 cities worldwide.

Operating from multiple locations globally, Concert's main business units include:

- *Global Accounts:* Concert provides communications services to approximately 270 multinational companies who may contract and receive service virtually anywhere in the world. This business unit focuses on the communications needs of customers from the automotive, financial, petrochemical, pharmaceutical and information technology sectors. It has its own dedicated sales force of around 2,000 people in locations all over the world.

- *Global Markets:* Working through a global network of over 50 distributors, Concert offers facilities-based communications solutions for multinational companies and other business customers and institutions worldwide. AT&T, BT and other distributors around the world sell Concert services, including private line, frame relay, global software-defined networks and value-added IP services. This part of the business includes the activities of BT's former wholly-owned subsidiary, previously known as Concert Communications Services. Working through its network of global distributors, Concert serves an additional targeted base of 29,000 customers worldwide.

- *International Carrier Services:* This business division sells services to fixed and wireless carriers and ISPs worldwide, including AT&T and BT. In the 2001 financial year, Concert will handle approximately 28 billion minutes of international voice traffic. From January 2000, the responsibility for handling transit calls and the termination of outgoing calls from the United Kingdom has been transferred from BT to Concert. BT continues to handle the termination of incoming international calls into the United Kingdom, but these are now routed through Concert.

- *Global Products:* This business division is responsible for the complete portfolio of data, IP network, IP product, e-business and bandwidth services developed and offered by Concert. Global Products establishes and implements the portfolio strategy that drives Concert's transition from its dependence on heritage network services to IP communications business.

Research and Development

Our commitment to research and development is fundamental to ensuring we continue to exploit the latest technologies to provide our customers with advanced information and communication services.

We have research and development centers at Adastral Park (Martlesham) Ipswich, London, Cardiff, Belfast and Glasgow. Our own highly-skilled teams of engineers are complemented by partnerships with leading technology suppliers and universities on a global scale.

In the 2000 financial year, we invested £345 million in research and development. Major areas of work included the next generation internet, broadband wireless and fixed access networks, advanced data services, information and network security, 3G mobile multimedia services and the software system to support the management and integrity of our networks worldwide. We are also undertaking research on the impact of advanced communications on lifestyles, education and healthcare in the connected society of the twenty-first century.

Our People

At March 31, 2000, BT employed around 137,000 people throughout the world, with 126,000 in the United Kingdom, making us one of the United Kingdom's largest private sector employers. By September 30, 2000, the number of people employed by BT throughout the world had decreased to 132,300, with 119,100 in the United Kingdom. Around 33,000 people are employed by our joint ventures and associates.

The number of people employed increased by approximately 12,000 in the 2000 financial year. This increase included almost 6,600 joining through acquisitions and new subsidiaries, the conversion of around 2,500 former temporary workers onto BT employment, plus recruitment in the U.K. business to meet increased demand — particularly in our mobile, internet and multimedia businesses. Additional resources have also been brought in to continue the transformation of our network and to prepare for new products, such as the ADSL broadband launch. BT recruited almost 600 high-caliber graduates in the year, across all areas of the business.

As part of the continuing program of reshaping the group and reducing our cost base, we have implemented a voluntary redundancy program. Over 3,200 managers had left the business under this program by the end of September 2000 and more than 5,000 people are scheduled to leave by the end of this financial year. As we continue to focus on costs and productivity this downward trend should continue.

Most BT employees are members of the BT pension scheme, which is controlled by trustees who are company or union nominees.

An estimated 80,000 of the company's U.K. employees belong to one of the two trades unions recognized by the company. The pattern of industrial relations in the last few years has been stable, and we continue to have constructive relationships with both unions and to work our way through any problems.

Property

The group had a property portfolio of approximately 8,000 buildings at March 31, 2000, the majority of which are freehold, located principally throughout the United Kingdom. Specialized buildings account for the majority of properties, both in number and book value. They house mainly exchange equipment and are needed as part of the group's continuing activities.

General purpose properties consist chiefly of offices, depots, computer centers and shops. We are engaged in a program of disposing of surplus and redundant properties of all types.

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

Regulation, Competition and Prices

The commercial environment in the United Kingdom and in the countries in which BT operates or wishes to operate is increasingly competitive and dynamic. However, we remain subject to extensive regulation, particularly in the United Kingdom, which can materially affect the way in which the company carries out its business.

Regulation in the United Kingdom

The regulatory structure for U.K. telecommunications is set out principally in the Telecommunications Act 1984, which gives regulatory authority to the Secretary of State for Trade and Industry, and the Director General of Telecommunications who heads the Office of Telecommunications ("Oftel"). The Secretary of State and the Director General are required to ensure, as far as reasonably practical, that all reasonable demand for telecommunication services, including certain community services, is met and to secure the ability of licensed telecommunications operators to finance the provision of the services which they are licensed to provide. In addition, they are required, among other things, to promote the interests of consumers, purchasers and other users in the prices, variety and quality of telecommunication services and equipment, and to promote and maintain efficiency and effective competition among the U.K. telecommunications operators.

With limited exceptions, a license under the Telecommunications Act is required to operate a telecommunication system in the United Kingdom. The Secretary of State is responsible for issuing licenses after consulting the Director General.

The BT Licence

BT operates in the United Kingdom under a number of licenses, the most important of which is its license to operate its fixed-line public telecommunications network (the "Licence"). The Licence remains in force indefinitely, but the Secretary of State can revoke the Licence on 10 years' notice. The Licence can also be revoked at any time on various grounds, including non-compliance with its terms.

The Licence contains terms and conditions designed principally to ensure the widespread provision of telecommunication services in the United Kingdom, to protect the interests of consumers and to encourage the development of effective competition in telecommunication services and network provision within the United Kingdom.

Under the Licence, BT has to fulfill reasonable requests for access to voice telephony, low-speed data and fax transmission services, and reasonable access to public call boxes throughout nearly all the United Kingdom, including rural areas (these being the principal elements of the Universal Service Obligation).

Under the Licence, the company must allow other licensed operators to interconnect with its telecommunications system on cost-oriented, transparent and non-discriminatory terms.

The company must comply with a variety of fair trading obligations, such as:

- a prohibition on showing undue discrimination or unfairly favouring any part of its own business as against competitors on the basis of price terms or quality of service; and
- a prohibition on the unfair cross-subsidy of certain activities of the company.

BT must publish audited financial statements for the regulated "businesses" and "activities," in order to support the linkage of costs with interconnect prices and with a view to providing demonstrable evidence that BT is neither behaving in a discriminatory fashion nor unfairly subsidising its activities. If it appears to the Director General that an unfair cross-subsidy exists between specified parts of its own business, BT must take such steps as the Director General may direct to remedy the situation. The regulatory businesses for which separated accounts are currently produced are access, apparatus supply, network, retail systems, supplemental services and residual services. In addition, for the first time, BT produced separated financial statements for its mobile business for the 2000 financial year. The Licence also contains provisions enabling the Director General to monitor the company's activities, including requirements for BT to supply him with information he requests.

The Licence permits the imposition of price control formulae, the overall effect of which requires the company to reduce, or restricts the extent to which it can increase, the prices of many of its telephony services to the bulk of the residential market and also the prices for its interconnection services. In addition, the Licence contains certain specific restrictions on the terms on which BT can trade. In particular, the company is required to publish and adhere to standard prices and other terms for providing certain services and, in general, to apply uniformly a published scale of charges for installing residential exchange lines on premises to be served by a single line.

The Director General may make modifications to a license with the licensee's consent. Alternatively, changes to the license may be referred to the Competition Commission ("CC"). In either case, the Telecommunications Act requires public consultation before a license can be modified.

Licences may also be modified by legislation, including legislation implementing European Commission directives into U.K. law.

Implementation of Licensing Directive

In September 1999, modifications to the Licence came into force to meet the harmonization requirements of the European Community Licensing Directive (the "Directive"). The intention of the Directive was to prevent excessive or unjustified regulation through licensing of telecommunications. The modifications include the removal of restrictions that prevent BT from competing in the conveyance and provision of broadcast visual services to homes in the whole of the United Kingdom from January 1, 2001.

Competition

Competition Act

In addition to telecommunications industry regulation, BT is subject to general competition law.

The Competition Act 1998, which came into effect in March 2000, brings the United Kingdom in line with European Community law by prohibiting anti-competitive agreements and concerted practices and the abuse of a dominant market position. In the case of telecommunications, the Director General of Telecommunications has concurrent investigatory and enforcement powers with the Director General of Fair Trading. They have significant new investigative powers. Breach of the prohibitions could lead to fines of up to 10 per cent. of U.K. turnover for each year of infringement (up to a maximum of three years) and/or result in claims for damages in the civil courts. There are powers to order a company to cease an infringing activity.

There is a new statutory independent appeals mechanism for decisions under the Competition Act.

The competitive environment

The U.K. telecommunications market is fully open to entry and highly competitive. As a result, the U.K. Government and Oftel have indicated their expectation that it will be appropriate to move away from sector-specific (including license-based) regulation to greater reliance on the Competition Act.

However, as described above, Oftel currently regulates BT mainly through the provisions in the Licence. BT has commenced discussions with Oftel on amendments that should be made to the Licence to take account of the introduction of the Competition Act.

Although it is some years since the Telecommunications Act abolished the company's monopoly in telecommunications, obligations placed on BT are generally more onerous than for other licensees. BT believes the separation of the wholesale and retail businesses should mean that the retail business is regulated in a similar manner to other equivalent businesses.

Pricing Regulation

Fixed network

BT is subject to price controls on its fixed-network services in the United Kingdom at two levels: retail and network. Competitors are generally not subject to price controls.

Retail price controls

BT is subject to two sets of U.K. retail price controls, one on certain public-switched telephony call charges and exchange line rentals, and one on certain private circuits. Each price control is based on a formula calculated by reference to the U.K. Retail Prices Index (RPI) and an efficiency factor, X.

For services covered by the controls, weighted average prices cannot increase in each year beginning August 1 by more than the annual change in RPI minus X. In times of low inflation, the overall effect of this control requires the company to reduce its prices.

The retail price control for public-switched telephony, applying from August 1997 to July 2001, is RPI minus 4.5. Although it is measured on services used by the lowest 80 per cent. of BT's residential customers classified by bill size, controlled prices must be offered to all customers. The price control formula and the company's performance against the formula are set out in the table below:

Price control formula (RPI-X)	Years commencing August 1, 1995	1996	1997	1998	1999	2000
Per cent. RPI movement for the relevant period[(a)]	3.52	2.14	2.94	3.75	1.35	3.32
X in price control formula[(b)]	7.50	7.50	4.50	4.50	4.50	4.50
Per cent. required reduction in prices[(c)]	(1.38)	(4.92)	(1.56)	(0.73)	(3.15)	(1.09)
Per cent. reduction in prices overall	*(1.82)*	*(4.92)*	*(1.56)*	*(0.73)*	*(3.24)*	*(1.39)*[(d)]

(a) Annual increase in RPI to previous June.

(b) From August 1 1997, the RPI formula covers the main switched telephone services provided to the lowest 80 per cent. of BT's residential customers by bill size.

(c) After permitted carry forward of any unused allowance or shortfall from previous years.

(d) Price changes implemented up to December 1, 2000.

BT has also given an assurance that a "control" price package will be made available to business customers. The control package for small business customers provides that call charges will be no higher than the prices used for calculating adherence to the residential price control, and line rental increases will be no more than the change in RPI.

Under the price controls for private circuits, applying from August 1997 to July 2001, prices for domestic analog and low-speed digital private circuits cannot be increased by more than the change in the RPI in any year. Each discrete international private circuit price is subject to a safeguard cap of RPI.

Network charge control

The company operates under interconnection agreements with most other licensed operators.

A network charge control regime operating until September 30 2001 gives BT the freedom to set reasonable charges based on long-run incremental costs for its standard interconnection services. Depending on the degree of competition for these services, charges are price cap controlled (presently at RPI minus 8), safety cap controlled (i.e., no increases above RPI), or no longer subject to price controls. Those services Oftel considers unlikely to become competitive in the near future are subject to price cap controls; those Oftel considers likely to become competitive during the period of the controls are subject to safety cap control and those services Oftel considers fully competitive are not subject to price controls.

BT must publish a notification to the Director General and other licensed operators if it intends to amend existing charges or to offer new services.

Review of the price controls

Oftel is currently consulting to determine whether price controls should be extended beyond the present period that ends in 2001, and, if so, what form they should take. This process takes the form of a series of consultations that began in July 1999. Oftel expects to complete the review by January 2001. The BT Board expects to decide by the end of March 2001 whether to accept the proposals. If BT rejects them, Oftel may seek a referral to the CC.

If Oftel and BT are unable to agree on future price control arrangements, and the issue is referred to the CC, Oftel may extend the current retail price controls for eight months, and network charge controls for six months, from July 31, 2001 and September 30, 2001, respectively.

The final consultative document, published on October 27, 2000, recognizes that retail competition has intensified. Oftel proposes to extend the current retail price cap of RPI minus 4.5 per cent. by one year until July 2002, as an extension of the original four-year period, and to consult again to determine whether there is sufficient competition to remove retail price controls. Should Oftel decide that there is insufficient competition at that stage, then it would consider either renewing price controls or adopting other means to extend competition.

Oftel's network proposals include retaining the current baskets of interconnect (network) products very much as they are for another four years. It proposes a range for X within the RPI minus X price-cap formula of between 7.5 per cent. and 11.5 per cent., compared to the current level of 8 per cent.

Mobile networks

Licence modifications recommended by the CC proposed a reduction of about 25 per cent. in the price of calls from a BT line to mobile telephones from April 30, 1999, followed by an annual RPI minus 7 reduction for a further two years. Specifically, the CC required a reduction in BT's average retention (the amount BT keeps to cover costs and an element of profit after paying a termination charge to the mobile operator completing the call) from 5.8 pence per minute (ppm) to 3.4 ppm for the 2000 financial year.

The CC also recommended that BT Cellnet and Vodafone made price reductions on their average termination charges, from 14.8 ppm to 11.7 ppm for the 2000 financial year; this price came under a price control of RPI minus 9 for the two following years.

Non-U.K. regulation

In developing its business internationally, BT must take account of the regulatory regimes in the countries in which it operates or wishes to operate.

United States

In the United States, the Federal Communications Commission has extensive authority to regulate interstate and foreign services and services provided by common carriers, as well as the authority to implement policies that promote competition for all telecommunication services.

European Union

The European Commission is pursuing a policy of progressive liberalization and harmonization in telecommunications. In January 1998, the provision of infrastructure and all telecommunication services was liberalized in the European Union, although five member states were given a derogation for varying periods. Specific directives imposed new rules for, among other things, voice telephony, leased lines and interconnection, with particular emphasis on organizations with significant market power and with a common set of principles for licensing and enforcement. These have largely been implemented in national legislation. The European Commission reviewed progress during 1999 and is proposing a simplified regulatory framework, which will include a more uniform regulatory treatment of different communications technologies and a revision of the concept of significant market power.

Japan

Japan is taking a staged approach to deregulation. Full liberalization, save a 20 per cent. ceiling on foreign ownership in Nippon Telegraph and Telephone Corporation, was implemented in 1998. A move to more effective regulation, especially in the areas of forward-looking costs for interconnection, carrier pre-selection and number portability, is anticipated this year.

In April 2000, the Japanese government invited applications for 3G mobile licenses. In June 2000, J-Phone was granted a 3G license — one of three awarded.

Rest of the world

The World Trade Organisation's Agreement on Basic Telecommunications signed in February 1997 created a framework for the progressive opening of telecommunications markets in accordance with world trade standards. The agreement provides assurance that commitments made by the 73 participating nations can be legally enforced. However, the commitments themselves provide only limited opportunities in some markets. Detailed implementation schedules are required in many of those countries in which BT has an interest. A further round of World Trade Organisation negotiations on services is due to start later in 2000, although the timetable for its completion is unclear.

Other significant changes and issues

Local loop unbundling

During 1999, Oftel consulted on the demand and potential for competitive supply of broadband services. Oftel concluded that, in view of the demand for broadband and BT's position in the local access market, BT's copper local loops should be unbundled. In April 2000, BT consented to a modification to its Licence requiring BT to provide unbundled local loops to enable other operators to offer DSL-type broadband services. Customers would also have the option of taking narrowband voice services from these operators.

In July 2000, the European Commission published a draft Regulation requiring the introduction from December 31, 2000 of local loop unbundling, line-sharing and sub-loop unbundling. On the assumption that the Regulation will be approved, BT will be revising its local loop unbundling offer to reflect the requirements of the Regulation from December 31, 2000.

Carrier pre-selection

From January 1, 2000, the European Commission required the availability of carrier pre-selection (CPS) from operators with significant market power and number portability at a fixed location between all fixed-network operators. CPS allows customers to opt for certain classes of calls to be carried by an operator selected in advance without having to dial additional access codes.

In order to comply with the European Commission directive, BT was required to provide facilities for CPS from April 1 2000. Because software changes to BT's local exchanges cannot be achieved before January 2001 (for national and international calls) and January 2002 (for all other calls), it will be provided in the interim by means of auto-diallers on customers' premises. Oftel is finalizing its Determination on the cost sharing arrangements between BT and the CPS operators, following a partially successful legal challenge to Oftel's April 2000 Determination.

Leased lines

Oftel is currently undertaking a review of the competitiveness of the national leased lines market in the United Kingdom and the need for regulation in this sector. A consultation document was published in August 2000. Oftel's preliminary conclusions are that more competition is needed in the provision of wholesale "terminating segments" as a way of causing the retail markets for leased lines to become more competitive. Oftel is consulting on options for targeted regulation to address this. The main proposal is for BT to offer wholesale "terminating segments" at cost-based prices, which Oftel would set and control for the next four years. Oftel is likely to publish a statement outlining the action it intends to take in December 2000, and any regulatory changes are likely to come into effect in Spring 2001.

Mobile services

BT Cellnet operates under its own Mobile Public Telecommunications Operators license that authorizes provision of a range of mobile telecommunications services. The Director General has decided that BT Cellnet and Vodafone have "market influence." As a result, BT Cellnet and Vodafone are obliged, among other things, to supply independent service providers with wholesale airtime on their networks on fair and non-discriminating terms for resale.

As a pre-condition to eligibility for bidding in the 3G license auction, BT Cellnet and other existing second generation (2G) mobile operators were required to agree to amendments to their licenses to incorporate a "roaming condition." This obliges 2G operators to allow customers of the one new 3G entrant to roam onto their network. The condition will come into effect once this new entrant has rolled out its network in a geographic area where at least 20 per cent. of the U.K. population live.

Operators will be expected to negotiate a roaming agreement. If they are unable to agree, the matter may be referred to the Director General for resolution. The condition will remain in force until 2009.

Universal service

In September 2000, Oftel issued a further consultation on BT's Universal Service Obligation (USO). BT endorses Oftel's view that at this point BT's USO should not be extended to cover broadband services. Whilst BT welcomes Oftel's revision of costs and benefits set out in the previous consultation, BT is disappointed by Oftel's failure to acknowledge the strong case for industry funding of the significant net costs that fall on BT in providing universal service. BT still believes social telephony would be better funded through an industry-wide fund. BT awaits Oftel's final conclusions.

The U.K. Government's review of telecommunications and broadcasting regulation

The U.K. Government has initiated a review of telecommunications and broadcasting regulation. The U.K. Government stated it would publish a White Paper later in 2000 proposing regulatory reform concerning the convergence of the communications industries. Measures to change the telecommunications industry regulatory framework, formerly the subject of the Utilities Bill, are expected to fall within the scope of the White Paper. The White Paper is also expected to cover areas such as future regulation of broadcast content, media ownership rules and the role of public service broadcasting.

Electronic Communications Act

The U.K. Government aims to promote electronic commerce and electronic government through the introduction of the Electronic Communications Act. The Act seeks to promote trust in electronic commerce by providing for a voluntary approvals scheme for cryptography service providers and ensuring that electronic signatures have legal recognition. The Act also enables ministers to change existing legislation that requires written signatures. These measures should help to remove legal barriers to the use of electronic signatures, and promote the use of electronic commerce.

Oftel strategy statement

In January 2000, Oftel published a strategy statement proposing to roll back regulation where competition is effective and protects consumers. There will be more industry self-regulation and co-regulation, with a stronger emphasis on preventing anti-competitive practices.

Oftel announced it would conduct major reviews of key telecommunications sectors over the next few years, to see if competition is effective in delivering benefits to consumers and, if so, whether regulation is still necessary.

BT welcomes Oftel's proposed strategy. The communications industry is experiencing change on an unprecedented scale across the globe. BT believes the United Kingdom's current regulatory framework does not meet the needs of today's fast-evolving world. BT believes the sector reviews should be frequent enough to allow the regulatory framework to respond appropriately, and should be conducted from a forward-looking perspective. Ad hoc reviews, and regulations that lapse after a certain period, should also be used to keep regulation to the minimum necessary.

BT supports Oftel's emphasis on self-regulation, which can be an important stage in the transition from traditional regulation to a competition law environment. We have urged Oftel to take early action to put the strategy into practice, in particular by removing conditions from our Licence that are duplicated by the Competition Act.

Domestic obligations in a global market

As a result of BT's growing global interests, a Licence condition prohibits BT from doing anything, by act or omission, that would detract materially from its ability to meet its Licence obligations to provide U.K. telecommunication services and to do so to any standards specified by the Director General. BT's directors are required to submit an annual compliance certificate to the Director General.

Interconnection product

On May 26 2000, Oftel issued a Determination stating that BT should provide an interconnection product under Condition 45 of its license for flat rate internet access call origination (FRIACO). The Determination requires BT to provide call origination for internet access, not on the standard pence per minute basis, but with charging based upon network capacity purchased. The Determination directed BT to offer FRIACO at the local exchange level from June 1, 2000. BT has concerns at potential network congestion should FRIACO have to be made available at the next level up in the network (DMSU). Oftel have acknowledged these concerns and, on November 13, 2000, began consulting on proposals that would make FRIACO be available at the DMSU level, although with safeguards in place for one year to ensure the network does not become congested. Oftel also intends to review the charges later this year.

Relationship with the U.K. Government

The U.K. Government collectively is BT's largest customer, but the provision of services to any one department or agency of the U.K. Government does not comprise a material proportion of BT's revenues. Except as described below, the commercial relationship between BT as supplier and the U.K. Government as customer has been on a normal customer and supplier basis.

BT can be required by law to do certain things and to provide certain services for the U.K. Government. The Licence obliges BT to provide certain services for U.K. Government departments, such as priority repair of certain telephone lines. In addition, the Secretary of State has statutory powers to require BT to take certain actions in the interests of national security, international relations and the detection of crime.

MANAGEMENT

Set forth below are the names and positions of the Board of Directors and Executive Officers of British Telecommunications public limited company.

Board of Directors

Name	Position
Sir Iain Vallance	Chairman. Chairman of Concert, BT's global venture with AT&T, and a non-executive Vice Chairman of The Royal Bank of Scotland. President of the Confederation of British Industry.
Lord Marshall of Knightsbridge	Deputy Chairman. Chairman of British Airways and Invensys, and a non-executive Director of HSBC Holdings. Lord Marshall will retire from the Board by the end of the 2001 AGM.
Sir Peter Bonfield, CBE	Chief Executive. Non-executive Deputy Chairman of ICL and non-executive Director of AstraZeneca. A member of the advisory board of Salomon Smith Barney.
Robert P. Brace	Group Finance Director until October 31, 2000. Robert Brace has decided to leave BT and will step down from the Board in December 2000.
Bill Cockburn, CBE, TD	Group Managing Director BT UK and non-executive Director of Lex Service. Bill Cockburn will retire from the BT Board following the transition of the U.K. fixed-network business into separate wholesale and retail divisions.
Philip R. Hampton	Group Finance Director since November 1, 2000. Formerly Finance Director of BG Group.
Helen Alexander	Non-executive Director. Chief Executive of The Economist Group and a non-executive Director of Northern Foods.
Dr. Iain Anderson	Non-executive Director. Non-executive Director of Scottish and Newcastle, and a former executive Director of Unilever.
Maarten van den Bergh	Non-executive Director since September 1, 2000. Non-executive Deputy Chairman of Lloyds TSB Group. Former president of the Royal Dutch Petroleum Company and Managing Director of the Royal Dutch/Shell group of companies.
Sir Anthony Greener	Non-executive Director since October 1, 2000. Chairman of University for Industry. Formerly Chairman of Diageo. Sir Anthony is due to become joint deputy chairman on January 1, 2001 and to succeed Lord Marshall as deputy chairman from the date of the AGM in 2001.
Louis R. Hughes	Non-executive Director. Former President and chief operating officer of Lockheed Martin Corporation and executive vice president of General Motors. Member of the supervisory board of Deutsche Bank and non-executive Director of Electrolux.
Neville Isdell	Non-executive Director. Chairman and Chief Executive of Coca-Cola HBC.
June de Moller	Non-executive Director. A non-executive Director of Cookson Group, J Sainsbury and Lynx Group. Formerly Managing Director of Carlton Communications.
Keith Oates	Non-executive Director. A non-executive Director of Diageo. Formerly Deputy Chairman and Managing Director of Marks and Spencer. Keith Oates will retire from the Board on December 31, 2000.
Sir John Weston	Non-executive Director. A non-executive Director of Rolls-Royce. Formerly Britain's Ambassador to the United Nations.

The business address of each of the above is BT Centre, 81 Newgate Street, London EC1A 7AJ.

DESCRIPTION OF THE NOTES

This section summarizes the specific financial legal terms of the notes that are more generally described under "Description of the Debt Securities." If anything described in this section is inconsistent with the terms described under "Description of the Debt Securities" in the prospectus, you should consider the terms here to be the ones that prevail.

General

The 3-year notes will be issued in an aggregate principal amount of $1.1 billion. The 5-year notes will be issued in an aggregate principal amount of $3.1 billion. The 10-year notes will be issued in aggregate principal amount of $3 billion. The 30-year notes will be issued in an aggregate principal amount of $2.8 billion. We use the term notes in this section to refer collectively to the 3-year notes, 5-year notes, 10-year notes and 30-year notes.

The notes will be unsecured and unsubordinated, ranking equally with all our other unsecured and unsubordinated indebtedness. The notes will rank equally without any preference among themselves and with all our present and future unsecured and unsubordinated indebtedness.

Payment of principal of and interest on the notes, so long as the notes are represented by global securities (as described in the prospectus under the heading "Description Of The Debt Securities — Form of Securities; Settlement and Clearance"), will be made in immediately available funds. Beneficial interests in the global securities will trade in the same-day funds settlement system of DTC, and secondary market trading activity in such interests will therefore settle in same-day funds.

Payment of interest on the notes will be made to holders of the notes on record as of the 1st day of the month in which payment is due.

Interest

The 5-year notes, 10-year notes and 30-year notes will initially bear interest from December 12, 2000 at the applicable interest rate per annum shown on the cover page of this prospectus supplement.

Interest on the notes will be calculated on the basis of a 360-day year of twelve 30-day months.

Interest will be payable on the 5-year notes, 10-year notes and 30-year notes semi-annually in arrears on June 15 and December 15 of each year starting on June 15, 2001. In the event the date of payment falls on a weekend or on a legal or bank holiday in New York, interest can be paid on the next day that is a business day in New York.

The 3-year notes will bear interest from December 12, 2000 to the first interest reset date at the base rate equal to LIBOR, as described below, adjusted by adding the spread, which is 1.045 per cent. Thereafter, the 3-year notes will bear interest at a base rate equal to LIBOR, as adjusted by adding the spread, which is 1.045 per cent. and as may be further adjusted as described below under "— Interest Rate Adjustment."

The interest rate on the 3-year notes will in no event be higher than the maximum rate permitted by New York law, as it may be modified by U.S. law of general application. Under current New York law, the maximum rate of interest, with some exceptions, for any loan in an amount less than $250,000 is 16% and for any loan in an amount of between $250,000 and $2,500,000 is 25% per year on a simple interest basis. These limits do not apply to loans of $2,500,000 or more.

Interest will be payable on the 3-year notes quarterly in arrears on March 15, June 15, September 15 and December 15 of each year starting on March 15, 2001. In the event that the date of payment falls on a weekend or on a legal or bank holiday in New York, interest can be paid on the next day that is a business day in New York.

The rate of interest on the 3-year notes will be reset quarterly by the calculation agent, as described below. The date on which the interest rate resets and the reset rate becomes effective is called the reset date. The interest reset dates for the notes will be March 15, June 15, September 15 and December 15.

The interest rate with respect to the 3-year notes in effect on any particular day will be the interest rate determined with respect to the latest interest reset date that occurs on or before that day, adjusted (where applicable) as described under "— Interest Rate Adjustment" below. However, there are several exceptions to the reset provisions described above.

If any interest reset date falls on a weekend or on a legal or bank holiday in New York, the interest reset date will be postponed to the next day that is a business day in New York.

The interest rate that takes effect on an interest reset date will be determined by the calculation agent by reference to a particular date called an interest determination date. The interest determination date relating to a particular interest reset date will be the second New York business day preceding the interest reset date.

If any interest determination date would otherwise be a day that is not a business day in New York, the interest determination date will be postponed to the next day that is a business day in New York.

Calculations relating to the 3-year notes will be made by the calculation agent, an institution that we appoint as our agent for this purpose and shall initially be the trustee. We may appoint a different institution to serve as calculation agent from time to time after the original issue date of the 3-year notes without your consent and without notifying you of the change.

The calculation agent will determine on the interest determination date the interest rate with respect to the 3-year notes that takes effect on each interest reset date. In addition, the calculation agent will calculate the amount of interest that has accrued during each interest period — i.e., the period from and including the original issue date, or the last date to which interest has been paid or made available for payment, to but excluding the payment date. For each interest period, the calculation agent will calculate the amount of accrued interest by multiplying the face amount of the 3-year note by an accrued interest factor for the interest period. This factor will equal the sum of the interest factors calculated for each day during the interest period. The interest factor for each day will be expressed as a decimal and will be calculated by dividing the interest rate (also expressed as a decimal) applicable to that day by 360.

Upon request, the calculation agent will provide notice of the interest rate then in effect with respect to the 3-year notes and, if determined, the interest rate with respect to the 3-year notes that will become effective on the next interest reset date. The calculation agent's determination of any interest rate, and its calculation of the amount of interest for any interest period, will be final and binding in the absence of manifest error.

All percentages resulting from any calculation relating to a note will be rounded upward or downward, as appropriate, to the next higher or lower one hundred-thousandth of a percentage point (e.g., 9.876541% (or .09876541) being rounded down to 9.87654% (or .0987654) and 9.876545% (or .09876545) being rounded up to 9.87655% (or .0987655)). All amounts used in or resulting from any calculation will be rounded upward or downward, as appropriate, to the nearest cent.

LIBOR will be the offered rate appearing on the Telerate LIBOR page as of 11:00 A.M., London time, on the relevant LIBOR interest determination date, for deposits of U.S. dollars for a period of three months. The Telerate LIBOR page is Telerate page 3750 or any replacement page or pages on which London interbank rates of major banks for the U.S. dollar are displayed.

If Telerate LIBOR does not appear on that page, then LIBOR for the new interest period will be determined on the basis of the rates, at approximately 11:00 A.M., London time, on the relevant interest determination date, at which deposits of the following kind are offered to prime banks in the London interbank market by four major banks in that market selected by the calculation agent: deposits of U.S. dollars for a period of three months beginning on the relevant interest reset date, and in a representative amount. The calculation agent will request the principal London office of each of these banks to provide a quotation of its rate. If at least two quotations are provided, LIBOR for the relevant interest determination date will be the arithmetic mean of the quotations.

If fewer than two quotations are provided as described above, LIBOR for the new interest period will be the arithmetic mean of the rates for loans of the following kind to leading European banks quoted, at approximately 11:00 A.M., in New York, on that interest determination date, by three major banks in New

York selected by the calculation agent: loans of U.S. dollars for a period of three months, beginning on the relevant interest reset date, and in a representative amount.

If fewer than three banks selected by the calculation agent are quoting as described above, LIBOR for the new interest period will be LIBOR in effect for the prior interest period.

The reference banks and dealers employed by the calculation agent in determining the base rate may include the calculation agent itself and its affiliates, as well as Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated and Salomon Smith Barney Inc. and their affiliates.

Interest Rate Adjustment

The interest rate payable on the notes will be subject to adjustment from time to time if either Moody's or S&P reduces the rating ascribed to our senior unsecured debt below A3 in the case of Moody's or below A— in the case of S&P. In this event, the interest rate payable on the 5-year notes, 10-year notes and 30-year notes and the spread applicable to the 3-year notes will be increased by 0.25 per cent. for each rating category downgrade by either rating agency. In addition, if Moody's or S&P subsequently increases the rating ascribed to our senior unsecured debt, then the interest rate then payable on the 5-year notes, 10-year notes and 30-year notes and the spread applicable to the 3-year notes will be decreased by 0.25 per cent. for each rating category upgrade by either rating agency, but in no event will the interest rate be reduced to below the initial interest rate. Any such interest rate increase or decrease will take effect from the interest payment date following the related rating downgrade or upgrade, as the case may be. For this purpose, a ratings category is the difference between a particular rating assigned by either Moody's or S&P and the next lower rating. For example, in the case of Moody's the difference between Baa1 and Baa2 shall constitute one rating category and in the case of S&P the difference between BBB+ and BBB shall constitute one rating category. There is no limit to the number of times the interest rate payable on the notes can be adjusted.

Maturity

We will repay the 3-year notes on December 15, 2003 at 100 per cent. of their principal amount plus accrued interest. We will repay the 5-year notes on December 15, 2005 at 100 per cent. of their principal amount plus accrued interest. We will repay the 10-year notes on December 15, 2010 at 100 per cent. of their principal amount plus accrued interest. We will repay the 30-year notes on December 15, 2030 at 100 per cent. of their principal amount plus accrued interest.

Optional Redemption

The 5-year notes, 10-year notes and 30-year notes will be redeemable as a whole or in part, at the option of the Company at any time, at a redemption price equal to the greater of (i) 100 per cent. of the principal amount of such notes or (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 0.25 per cent. in the case of the 5-year notes, 0.30 per cent. in the case of the 10-year notes and 0.375 in the case of the 30-year notes, plus in each case accrued interest thereon to the date of redemption. The 3-year notes will not be redeemable at the option of the Company.

"Treasury Rate" *means, with respect to any redemption date, the rate per annum equal to the semiannual* equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"Comparable Treasury Issue" means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such notes.

"Independent Investment Banker" means one of the Reference Treasury Dealers appointed by the Trustee after consultation with the Company.

"Comparable Treasury Price" means, with respect to any redemption date, (A) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (B) if the Trustee obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 3:30 p.m. New York time on the third business day preceding such redemption date.

"Reference Treasury Dealer" means each of Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated, Salomon Smith Barney Inc., plus two other banks selected by BT, or their affiliates which are primary U.S. Government securities dealers, and their respective successors; provided, however, that if any of the foregoing or their affiliates shall cease to be a primary U.S. Government securities dealer in The City of New York (a "Primary Treasury Dealer"), the Company shall substitute therefor another Primary Treasury Dealer.

Notice of any redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each holder of notes to be redeemed.

Unless the Company defaults in payment of the redemption price, on and after the redemption date interest shall cease to accrue on the relevant notes or portions thereof called for redemption.

Negative Pledge

We have agreed that we and our subsidiaries will not become obligated on any present or future capital market indebtedness, which is described further below, that is secured by a lien on the whole or any part of our present or future assets, unless an equivalent or higher-ranking lien on the same property is granted to the holders of the notes.

As used here, capital market indebtedness means any obligation to repay money that is borrowed through the issuance of bonds, notes or other debt securities which are or which we publicly announce that we intend to have listed or traded on a stock exchange or other recognized securities market.

Consolidation, Merger, Conveyance, Transfer or Lease

We may consolidate or merge with or into, or convey, transfer or lease all or substantially all our properties or assets to any person; provided that:

- after giving effect to such transaction, no event of default, and no event, which after notice or lapse of time, would become an event of default, shall have occurred and be continuing; and
- the purchaser or successor

1. expressly assumes all of our obligations under the indenture and the notes; and
2. agrees to indemnify the holders for the tax consequences of the transactions, including any additional withholding tax, and for any other costs and expenses resulting from the transaction.

In addition, if the ratings assigned to these notes, after giving effect to such transaction, are lower than Baa2 by Moody's and BBB by S&P when Moody's and S&P make their first public announcements of the ratings for the notes following the consummation of the transaction, each holder of the notes shall have the right to require this purchaser or successor to repurchase all or any of its notes at a purchase price equal to 100 per cent. of the principal amount thereof together with accrued but unpaid interest, if any, through the date of purchase.

Substitution of Obligor

We may, in the future, substitute a parent holding company as obligor under the notes; provided that:

- after giving effect to the transaction, no event of default, and no event, which after notice or lapse of time, would become an event of default, shall have occurred and be continuing;
- our parent company

1. expressly assumes all of our obligations under the indenture and the notes and is concurrently assuming all our other capital markets indebtedness;
2. agrees to indemnify the holders for the tax consequences of the transaction, including any additional withholding tax, and for any other costs and expenses resulting from the transaction; and

- the substitution will not result in the notes no longer being listed on any stock exchange on which they are already listed and ratings assigned by Moody's and S&P to the senior unsecured debt of our parent company, including the notes, after giving effect to such transaction, will be the same or higher than that ascribed to our senior unsecured debt prior to the substitution.

Form of Notes

We will issue the notes as a permanent global certificate in bearer form deposited with Citibank. Beneficial interests in the notes may be held through DTC and its direct and indirect participants (including Clearstream, Luxembourg and Euroclear).

Denominations

The notes will be issued in minimum denominations of $1,000 and in integral multiples of $1,000.

Definitive Notes

See "Description of the Debt Securities — The Deposit Agreement" in the prospectus for a description of the procedures applicable in the event we issue definitive securities. Definitive securities will be serially numbered.

Name of Depositary

Citibank, N.A. See "Description of the Debt Securities — The Deposit Agreement" in the prospectus for more information about Citibank's procedures.

Redemption Notice

We will give notice to Citibank of any redemption we propose to make at least 30 days, but not more than 60 days, before the redemption date.

Defeasance and Discharge

We may release ourselves from any payment or other obligations on the notes as described under "Description of the Debt Securities — Defeasance and Discharge" in the prospectus.

Name of Trustee

Citibank, N.A. See "Description of the Debt Securities — The Indenture and Prospectus Supplements" and "Description of the Debt Securities — Events of Defaults" in the prospectus for a description of the trustee's procedures and remedies available in the event of a default.

Notices

All notices regarding the notes will, so long as the rules of the United Kingdom Listing Authority require, be published in the *Financial Times* or another leading newspaper of general circulation in England.

Governing Law

The notes will be governed by the laws of the State of New York.

Credit Rating

Our current senior unsecured credit rating by Moody's is A2 with a stable outlook. Our current rating by S&P is A with a negative outlook.

Prescription

There is no express term in the indenture as to any time limit on the validity of claims of holders to interest and repayment of principal, but any such claims will be subject to any statutory limitation period prescribed under the laws of the State of New York.

TAXATION

U.S. Tax Considerations

The following summary of the material U.S. federal income tax consequences of the purchase, ownership and disposition of a note is based on the Internal Revenue Code of 1986, as amended (the "Code") Treasury regulations (including proposed regulations and temporary regulations) promulgated thereunder, rulings, pronouncements of the U.S. Internal Revenue Service and judicial decisions, all as in effect on the date hereof and all of which are subject to change, possibly with retroactive effect, or to different interpretations. This summary provides general information only and does not purport to address all of the U.S. federal income tax consequences that may be applicable to a holder of a note. It does not address all of the tax consequences that may be relevant to certain types of holders subject to special treatment under U.S. federal income tax law, such as individual retirement and other tax-deferred accounts, dealers in securities or currencies, traders in securities that elect to mark to market, financial institutions, life insurance companies, tax-exempt organizations, persons holding notes as a hedge or hedged against currency risk, persons holding notes as part of a straddle or conversion transaction, or persons whose functional currency is other than the U.S. dollar. Persons considering the purchase of notes should consult their own tax advisors concerning the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the law of any state, local or non-U.S. tax jurisdiction.

For purposes of the following discussion, "U.S. person" means (i) an individual who is a citizen or resident of the United States, (ii) a corporation organized in or under the law of the United States or any political subdivision thereof, (iii) an estate subject to U.S. federal income taxation without regard to the source of its income, or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust. The following discussion pertains only to a holder or beneficial owner of a note who (a) is a "U.S. person," and (b) who holds the note as a capital asset within the meaning of Section 1221 of the Code (each such holder or beneficial owner being hereinafter referred to as a "U.S. Holder").

Payments of interest

Interest on a note (including any additional amounts paid in respect of withholding, if any, imposed on interest payments on the notes) will be taxable to a U.S. Holder as ordinary interest income at the time it is accrued or received in accordance with the U.S. Holder's method of tax accounting. Such interest will constitute foreign source income for U.S. federal income tax purposes but, with certain exceptions, will be treated separately, together with other items of "passive income" or, in certain cases, "financial services income" for purposes of computing the foreign tax credit allowable under U.S. federal income tax law. A U.S. Holder who is entitled to a refund of any U.K. tax withheld on a payment of interest on a note will not be entitled to claim a foreign tax credit with respect to such tax.

Interest rate adjustment

The interest rate on the notes may be adjusted under certain circumstances. A U.S. Holder should not be required to take into account the existence of the adjustment feature in determining its income for U.S. federal income tax purposes unless and until the interest rate is adjusted. The existence of the adjustment feature should, therefore, not affect the rules described above.

Sale, exchange or retirement of notes

Upon the sale, exchange or retirement of a note, a U.S. Holder generally will recognize gain or loss equal to the difference between the U.S. Holder's tax basis in the note and the amount realized on the sale, exchange or retirement, except to the extent such amount is attributable to accrued interest (which will be taxable as such). A U.S. Holder's tax basis in a note will generally be the cost of the note to such U.S. Holder. Gain or loss so recognized will be capital gain or loss and will generally be treated as U.S. source gain or loss. In the case of a U.S. Holder who is an individual, capital gain, if any, generally will be subject to U.S. federal income tax at preferential rates if specified minimum holding periods are met.

U.S. information reporting and backup withholding

Payments of principal and interest with respect to the notes and proceeds from the sale, exchange or redemption of the notes may be subject to information reporting to the U.S. Internal Revenue Service and possible U.S. backup withholding at a 31 per cent. rate. Backup withholding will not apply, however, to a holder who furnishes a correct taxpayer identification number or certificate of foreign status and makes any other required certification or who is otherwise exempt from backup withholding. Finalized Treasury regulations have generally expanded the circumstances under which information reporting and backup withholding may apply for payments made after December 31, 2000. Holders of notes should consult their own tax advisors regarding the application of the information reporting and backup withholding rules, including the finalized Treasury regulations.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder's U.S. federal income tax liability, and 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 U.S. Internal Revenue Service and furnishing any required information.

THE U.S. FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A HOLDER'S PARTICULAR SITUATION. HOLDERS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN U.S. FEDERAL OR OTHER TAX LAWS.

U.K. Tax Considerations

The comments below are of a general nature based on current U.K. law and practice. They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who are the absolute beneficial owners of their notes and interest and may not apply to certain classes of persons such as dealers. Any holders who are in doubt as to their personal tax position should consult their professional advisers.

Interest payments

Provided the notes remain in bearer form and continue to be listed on a stock exchange recognized by the Inland Revenue for the purposes of section 841 of the Income and Corporation Taxes Act 1988 ("ICTA"), payments of interest may be made without deducting or being liable to account for any amount in respect of U.K. tax where:

(a) the payment of interest is made by a paying agent outside the United Kingdom; or

(b) the payment is made by or through a person who is in the United Kingdom but:

  (i) the person who is the beneficial owner of the notes and is beneficially entitled to the payment of interest is not resident in the United Kingdom or;

  (ii) the notes are held in a "recognised clearing system" within the meaning of section 841A of ICTA (DTC has been designated as a "recognised clearing system" for this purpose).

In the case of each of the exceptions in (i) and (ii) above, the Inland Revenue has introduced regulations requiring the person in the United Kingdom who is entrusted with the payment of interest to receive a declaration in the prescribed form that the relevant requirements have been satisfied in order for the relevant exceptions to be available.

Where a person in the United Kingdom acts as a collecting agent, i.e., either:

(a) acts as a custodian of the notes and receives interest on them or has the interest paid at its direction or with its consent to another person; or

(b) collects or secures payment of, or arranges to collect or secure payment of, interest on the notes for another person (other than merely arranging to clear a cheque); that person must normally deduct U.K. income tax at the lower rate (currently 20 per cent.), unless

(i) the notes are held in a recognized clearing system and the collecting agent either (A) pays or accounts for the interest directly or indirectly to the recognized clearing system or (B) is acting as depositary for the recognized clearing system; or

(ii) the person who beneficially owns the notes and who is beneficially entitled to the payment of interest is not resident in the United Kingdom.

In the case of exceptions in (i)(A) and (ii) above, the Inland Revenue has introduced regulations requiring the receipt of a declaration in the prescribed form that the relevant requirements have been satisfied for the relevant exception to be available. There are also exceptions for certain types of holders (e.g., pension funds, charities and non-resident trusts).

As a result of the Finance Act 2000, U.K. withholding tax (including withholding by paying and collecting agents) will be abolished in relation to interest payments or receipts made or received on or after April 1, 2001 on the notes (whether in registered or bearer form) provided that, where the payments are of U.K. source interest and made by U.K. issuers or paying agents, the notes are listed on a recognized stock exchange or the Official List of the United Kingdom Listing Authority. It is proposed to introduce new machinery from the same date enabling the Inland Revenue to obtain information about U.K. savings income of all individuals and, in certain circumstances, to exchange taxpayer information with the tax authorities of other jurisdictions.

In all other cases interest will be paid after deduction of U.K. income tax at the lower rate (currently 20 per cent.). A U.S. Holder which is entitled to the benefits of the Convention Between the United States and the United Kingdom for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Taxes on Income and Capital Gains (the "Treaty") will normally be eligible to recover in full any U.K. tax withheld from payments of interest to which such Holder is beneficially entitled by making a claim under the Treaty on the appropriate form. Alternatively, a claim may be made by a U.S. Holder in advance of a payment of interest. If the claim is accepted by the Inland Revenue, it will authorize subsequent payments to the U.S. Holder to be made without deduction of U.K. withholding tax. Claims for repayment must be made within five years from the 31st of January next following the U.K. year of assessment to which the interest relates and must be accompanied by the original statement provided by the Company when the interest payment was made showing the amount of U.K. income tax deducted. Because a claim is not considered until the U.K. Inland Revenue receives the appropriate form from the U.S. Internal Revenue Service, forms should be sent to the U.S. Internal Revenue Service, in the case of an advance claim, well before the relevant interest payment date or, in the case of a claim for repayment of the tax, well before the end of the appropriate limitation period.

Holders in other jurisdictions also may be entitled to a refund of all or part of any tax withheld or to make a claim for interest on the notes to be paid without, or subject to a reduced rate of, deduction or withholding under the provisions of an applicable double tax treaty. Refund of all or part of any tax withheld may also be available, depending on the individual circumstances, to a holder of notes who is resident in the United Kingdom or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the notes are attributable, or who is a Commonwealth citizen or otherwise entitled to a U.K. personal allowance.

Interest on the notes has a U.K. source and accordingly may be chargeable to U.K. tax even when paid without withholding. However, interest on the notes received without deduction or withholding on account of U.K. tax will not generally be chargeable to U.K. tax in the hands of a holder who is not resident for tax purposes in the U.K., unless the holder has a "U.K. representative" within the meaning of Section 126 and Schedule 23 of the Finance Act of 1995 in relation to the interest. Certain categories of agent (such as some brokers and investment managers) do not constitute "U.K. representatives" for these purposes. If the holder is chargeable to tax under the above rules, exemption from or reduction in the tax payable on the interest might be available in appropriate circumstances under the provisions of an appropriate double tax treaty.

No income tax will generally be assessed on a holder of a note who is not resident in the United Kingdom or who does not carry on a trade, profession or vocation in the United Kingdom through a U.K. branch or agency to which the notes are attributable, in respect of any discount on the note. In addition, exemption from or reduction of any U.K. tax liability which does arise may also be available under an appropriate double tax treaty.

A U.K. resident company or a non-U.K. resident company which carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the relevant notes are attributable will be subject to corporation tax in respect of income (and not in any circumstances as capital gains) on an accruals or a mark to market basis on all interest, profits and losses of whatever nature arising from the notes, broadly in accordance with their authorized accounting method. Such a company will also be required to bring in currency fluctuations in accordance with the exchange gains and losses provisions in the Finance Act 1993, which should generally mirror their accounting treatment.

Capital gains

The disposal (including redemption) of a note by a holder who is not a U.K. resident and does not carry on a trade, profession or vocation in the United Kingdom through a branch or agency to which the note is attributable will not generally be chargeable to U.K. tax.

The disposal (including redemption) of a note by a holder (other than a company) who is resident or ordinarily resident for tax purposes in the United Kingdom or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the note is attributable may give rise to a chargeable gain or allowable loss for the purposes of U.K. tax on capital gains (calculated to include currency exchange rate differences calculated by ascertaining the difference between the pound sterling equivalent at the date of acquisition of the consideration given for the notes and the pound sterling equivalent at the date of disposal of the proceeds received on disposal of those notes), depending on individual circumstances and subject to any taper relief which may be due.

Stamp duty and stamp duty reserve tax

No stamp duty or stamp duty reserve tax is payable on the issue or transfer of a note or on its redemption.

Inheritance tax

An individual who is domiciled in the United States for the purposes of the Estate Tax Treaty and who is not a national of the United Kingdom for the purposes of the Estate Tax Treaty will generally not be subject to U.K. inheritance tax in respect of the notes on the individual's death or on a gift of the notes during the individual's lifetime provided that any applicable U.S. federal gift or estate tax liability is paid, unless the notes are part of the business property of a permanent establishment of an enterprise of the individual in the United Kingdom or pertain to a fixed base in the United Kingdom of the individual used for the performance of independent personal services.

Proposed EU Directive on the taxation of savings income

In June 2000 the European Council agreed to amend earlier proposals published in May 1998 by the European Commission regarding the taxation of income of non-residents and relating, in particular, to the introduction of withholding tax on payments of interest. Subject to sufficient reassurances being obtained from a number of countries outside the European Union to promote the adoption of equivalent measures, the European Council has now agreed that Member States will be required no later than December 31, 2002 either (a) to exchange information with other Member States regarding savings income paid to non-residents or (b) to withhold tax on such income at a rate to be agreed, provided that Member States that operate a withholding system must implement exchange of information as soon as conditions permit and in any case no later than seven years after implementation of the proposals.

The United Kingdom intends to opt for exchange of information rather than withholding under the EU proposals through implementation of the Finance Act 2000 provisions noted above. Following implementation of these provisions no withholding of U.K. tax would be expected to be required in respect of payments of interest on the notes by a U.K. paying agent.

UNDERWRITING

Subject to the terms and conditions set forth in the underwriting agreement dated as of the date of this prospectus supplement, each of the underwriters has severally agreed to purchase, and we have agreed to sell to each underwriter, the principal amount of notes set forth opposite the name of each underwriter:

Underwriter	Principal Amount of Notes due 2003	Principal Amount of Notes due 2005	Principal Amount of Notes due 2010	Principal Amount of Notes due 2030
Merrill Lynch, Pierce, Fenner & Smith Incorporated	$ 300,800,000.00	$ 847,300,000.00	$ 820,000,000.00	$ 765,300,000.00
Morgan Stanley & Co. Incorporated	300,600,000.00	847,400,000.00	820,000,000.00	765,300,000.00
Salomon Smith Barney Inc.	300,600,000.00	847,300,000.00	820,000,000.00	765,400,000.00
ABN AMRO Incorporated	33,000,000.00	93,000,000.00	90,000,000.00	84,000,000.00
Barclays Capital Inc.	33,000,000.00	93,000,000.00	90,000,000.00	84,000,000.00
Deutsche Bank Securities Inc.	33,000,000.00	93,000,000.00	90,000,000.00	84,000,000.00
HSBC Securities (USA) Inc.	33,000,000.00	93,000,000.00	90,000,000.00	84,000,000.00
The Royal Bank of Scotland plc	33,000,000.00	93,000,000.00	90,000,000.00	84,000,000.00
Société Generale S.A.	33,000,000.00	93,000,000.00	90,000,000.00	84,000,000.00
Total	$1,100,000,000.00	$3,100,000,000.00	$3,000,000,000.00	$2,800,000,000.00

Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated and Salomon Smith Barney Inc. are the joint lead managers and joint book running managers for this offering.

The underwriting agreement provides that the obligations of the several underwriters to purchase the notes included in this offering are subject to approval of certain legal matters by counsel and to certain other conditions. The underwriters are obligated to purchase all the notes if they purchase any of the notes.

BT has been advised by the underwriters that the underwriters propose initially to offer some of the notes to the public at the public offering prices set forth on the cover page of this prospectus supplement and some of the notes to certain dealers at the public offering prices less commissions not in excess of 0.125 per cent., in the case of the 3-year notes, not in excess of 0.20 per cent., in the case of the 5-year notes, not in excess of 0.30 per cent., in the case of the 10-year notes and not in excess of 0.50 per cent., in the case of the 30-year notes, of the principal amount of the notes. After the initial public offering, the public offering prices and such commissions may be changed.

In connection with the offering, the underwriters may purchase and sell notes in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment involves syndicate sales of notes in excess of the principal amount of notes to be purchased by the underwriters in the offering, which creates a syndicate short position. Syndicate covering transactions involve purchases of the notes in the open market after the distribution has been completed in order to cover syndicate short positions. Stabilizing transactions consist of certain bids or purchases of notes made for the purpose of preventing or retarding a decline in the market price of the notes while the offering is in progress.

The underwriters may also impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when they, in covering syndicate short positions or making stabilizing purchases, repurchase notes originally sold by that syndicate member.

Any of these activities may cause the price of the notes to be higher than the price that otherwise would exist in the open market in the absence of such transactions. These transactions may be effected in the over-the-counter market or otherwise and, if commenced, may be discontinued at any time.

We estimate that the total expenses of this offering will be approximately $825,000.

The underwriters and their affiliates have performed certain investment banking and advisory and general financing and banking services for us from time to time for which they have received customary fees and expenses. The underwriters and their affiliates may, from time to time, be customers of, engage in transactions with and perform services for us in the ordinary course of their business.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make in respect of any of those liabilities.

Although application has been made for the notes to be admitted to trading on the London Stock Exchange plc, the notes are a new issue of securities with no established trading market. No assurance can be given as to the liquidity of, or the trading markets for, the notes. Purchasers of the notes may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the issue prices set forth on the cover page hereof. We have been advised by the underwriters for the notes that they intend to make a market in the notes, but they are not obligated to do so and may discontinue such market-making at any time without notice.

The United Kingdom

Each underwriter has represented and agreed that:

- it has not offered or sold and will not offer or sell any notes to persons in the United Kingdom prior to admission of the notes to listing in accordance with Part IV of the Financial Services Act 1986 (the "Act"), except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the Act;

- it has complied with and will comply with all applicable provisions of the Act, in respect of anything done in relation to the notes in, from or otherwise involving, the United Kingdom; and

- it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the notes, other than any document which consists of or any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part IV of the Act to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom such document may otherwise lawfully be issued or passed on.

The Netherlands

Each underwriter has represented and agreed that it has not, directly or indirectly, offered or sold and will not directly or indirectly offer or sell in the Netherlands any notes other than to persons who trade or invest in securities in the conduct of a profession or business (which include banks, stockbrokers, insurance companies, pension funds, other institutional investors and finance companies and treasury departments of large enterprises).

EXPERTS

The financial statements of British Telecommunications public limited company as of March 31, 2000 and 1999, and for each of the three years in the period ended March 31, 2000, incorporated by reference in the prospectus have been included herein and incorporated by reference in the prospectus in reliance on the report of PricewaterhouseCoopers, independent chartered accountants, given on the authority of said firm as experts in auditing and accounting.

LEGAL MATTERS

Certain legal matters relating to the notes will be passed upon for the Company by Shearman & Sterling, U.S. counsel to the Company, and by Linklaters, Linklaters & Alliance, U.K. counsel to the Company. Certain legal matters relating to the notes will be passed upon for the underwriters by Cleary, Gottlieb, Steen & Hamilton, U.S. counsel to the underwriters.

GENERAL INFORMATION

1. **Authorization:** The issue of the notes has been authorized by resolutions of the Board of Directors of the issuer passed on June 20, 2000.

2. **Listing:** The listing of the notes on the official list will be expressed as a percentage of their nominal amount (excluding accrued interest). Transactions will normally be effected for settlement in dollars and for delivery on the third business day after the day of the transaction. It is expected that such listing and the admission to trading of the notes on the London Stock Exchange plc will be granted on or about December 6, 2000 subject only to the issue of the notes.

3. **Clearing Systems:** The notes have been accepted for clearance through the facilities of DTC, Euroclear and Clearstream, Luxembourg, and have been assigned the following CUSIP, ISIN and Common Code numbers:

Notes due 2003	Notes due 2005	Notes due 2010	Notes due 2030
CUSIP 111021AB7	CUSIP 111021AC5	CUSIP 111021AD3	CUSIP 111021AE1
ISIN US111021AB72	ISIN US111021AC55	ISIN US111021AD39	ISIN US111021AE12
Common Code 012168454	Common Code 012168489	Common Code 012168527	Common Code 012169353

4. **Significant or Material Change:** Save as disclosed in this document, there has been no significant change in the financial or trading position of the company and its subsidiaries since September 30, 2000 (which is the date of our most recent published unaudited financial statements) and there has been no material change in the financial position or prospects of the company and its subsidiaries since March 31, 2000 (which is the date of our most recent published audited financial statements).

5. **Litigation:** No member of the company and its subsidiaries is or has been engaged in any legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this prospectus supplement, a significant effect on the company and its subsidiaries's financial position nor are any such proceedings pending or threatened.

6. **Documents Available:** Copies of the following documents will be available from the registered office of BT and at the offices of the paying and transfer agent in London, during usual business hours, on any weekday (Saturdays and public holidays excepted) for 14 days from the date of this prospectus supplement:

- the memorandum and articles of association of the issuer;
- the audited financial statements of the issuer in respect of the financial years ending March 31, 1999 and March 31, 2000;
- the most recently published unaudited interim financial statement of the issuer; and
- the underwriting agreement, the indenture and the deposit agreement.

7. **Other Listings:** The Company's Ordinary Shares are listed on the London Stock Exchange plc under the symbol "BT.A" and on the Tokyo Stock Exchange, where they are traded under the code "9484." The Company's American Depositary Shares representing Ordinary Shares are quoted on the New York Stock Exchange under the symbol "BTY." Reports and other information about the Company filed pursuant to the rules of the London Stock Exchange plc and New York Stock Exchange are available from such exchanges.

8. **Paying Agent:** We will maintain a paying agent in the United Kingdom for the duration of the notes.

9. **Auditors:** Certain financial information contained in this document in relation to the issuer does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985, but constitutes non-statutory accounts within the meaning of such section. The issuer's auditors are PricewaterhouseCoopers, Chartered Accountants and Registered Auditors of 1 Embankment Place, London, WC2N 6NN. PricewaterhouseCoopers was formed as a new partnership on July 1, 1998 when Coopers & Lybrand merged

its business with the Price Waterhouse. Coopers & Lybrand, Chartered Accountants and Registered Auditors, have audited the company's consolidated accounts for the financial year ended March 31, 1998 in accordance with U.K. auditing standards and PricewaterhouseCoopers have audited the issuer's consolidated accounts for the financial years ended March 31, 1999 and March 31, 2000 in accordance with the U.K. auditing standards. The auditors have made reports under section 235 of the Companies Act 1985 in respect of each set of statutory accounts and each report for these periods was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act.

REGISTERED AND HEAD OFFICE OF
BRITISH TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

BT Centre
81 Newgate Street
London EC1A 7AJ

TRUSTEE, DEPOSITARY AND PAYING AND TRANSFER AGENT

Citibank, N.A.
111 Wall Street
5th Floor
New York, NY 10005

PAYING AGENT AND TRANSFER AGENT

Citibank, N.A.
5 Carmelite Street
London EC4Y 0PA

LEGAL ADVISORS TO BRITISH TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

As to U.S. Law

Shearman & Sterling
Broadgate West
9 Appold Street
London EC2A 2AP

As to English Law

Alan Whitfield
Group Counsel
BT Centre
81 Newgate Street
London EC1A 7AJ

Linklaters
Linklaters & Alliance
One Silk Street
London EC2V 8HQ

LEGAL ADVISORS TO THE UNDERWRITERS

As to U.S. Law

Cleary, Gottlieb, Steen & Hamilton
One Liberty Plaza
New York, NY 10006

As to English Law

Allen & Overy
One New Change
London EC4M 9QQ

AUDITORS TO BRITISH TELECOMMUNICATIONS PUBLIC LIMITED COMPANY

PricewaterhouseCoopers
1 Embankment Place
London WC2N 6NN

LISTING AGENT

Salomon Brothers International Limited
Victoria Plaza
111 Buckingham Palace Road
London SW1W 0SB

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PROSPECTUS

BRITISH TELECOMMUNICATIONS plc

$10,000,000,000
Debt Securities

By this prospectus, we may offer debt securities in one or more series with a total maximum offering price of $10,000,000,000 or the equivalent in foreign denominated currency or currency units.

We will provide the specific terms of these debt securities in supplements to this prospectus. You should read both this prospectus and the accompanying prospectus supplement together with additional information described under the heading "Where You Can Find More Information" carefully before you invest.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus may not be used to consummate sales of debt securities unless accompanied by a prospectus supplement.

The date of this Prospectus is July 27, 2000

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WHERE YOU CAN FIND MORE INFORMATION

We file annual reports and other information with the Securities and Exchange Commission. You may read and copy any document we file at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our Ordinary Shares are admitted to the Official List of the U.K. Listing Authority and traded on the London Stock Exchange plc under the symbol "BT.A". Our American Depositary Shares representing Ordinary Shares are quoted on the New York Stock Exchange under the symbol "BTY". You may consult reports and other information about us we filed pursuant to the rules of the London Stock Exchange plc and the New York Stock Exchange.

We will furnish to holders of debt securities, upon request, annual reports on Form 20-F containing a summary description of our business and annual audited consolidated financial statements with a report by our independent public accountants. Such financial statements are prepared in accordance with generally accepted accounting principles applicable in the United Kingdom ("U.K. GAAP") which differ in certain significant respects from generally accepted accounting principles applicable in the United States ("U.S. GAAP"). Unless otherwise indicated, all financial data is prepared in accordance with U.K. GAAP. The annual report contains a reconciliation of profit/(loss) for the year and shareholders' equity to amounts in accordance with U.S. GAAP of net income and shareholders' equity.

The SEC allows us to incorporate by reference the documents we file with it, which means that we can disclose important information to you by referring you to those documents and that those documents are considered part of this prospectus. Information that we file with the SEC in the future and incorporate by reference will automatically update and supersede the previously filed information. The information that we incorporate by reference is an important part of this prospectus. We incorporate by reference the documents listed below and any future filings made with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") until this offering has been completed.

(a) Annual Report on Form 20-F, as amended, for the fiscal year ended March 31, 2000, which we refer to as our 2000 Form 20-F Report, and

(b) Our reports on Form 6-K furnished to the SEC after the date of this prospectus only to the extent that these reports expressly state that they are incorporated by reference in this prospectus.

As you read the above documents, you may find inconsistencies in information from one document to another. If you find inconsistencies you should rely on the statements made in the most recent document. All information appearing in this prospectus is qualified in its entirety by the information and financial statements, including the notes thereto, contained in the documents we have incorporated by reference.

You may request copies of these filings at no cost by accessing our website at http://www.bt.com, or by writing or telephoning us at the following address:

British Telecommunications plc
BT Centre
81 Newgate Street
London EC1A 7AJ
England
+ 44 20 7356 5000

You should rely only on the information contained or incorporated by reference in this prospectus and in any prospectus supplement accompanying this prospectus and that we have referred you to. We have not authorized anyone to provide you with information that is different. You should not assume that the information in this prospectus or in any prospectus supplement is accurate as of any date other than the date on the front of those documents.

ABOUT PROSPECTUS SUPPLEMENTS

The prospectus supplement for each offering of securities under this prospectus will contain specific information and terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. It is important that you read both this prospectus and the prospectus supplement for the applicable offering before you invest.

ENFORCEABILITY OF CERTAIN CIVIL LIABILITIES

We are a public limited company incorporated under the laws of England and Wales. All except one of our directors and officers, and the experts named herein, reside outside the United States ("U.S."), principally in the United Kingdom ("U.K.").

Substantially all of our assets and the assets of our directors and officers will be located outside the U.S. You may not be able, therefore, to effect service of process within the U.S. upon us or our directors and officers with respect to matters arising under the U.S. Federal securities laws or to enforce against them judgments obtained in U.S. courts predicated upon the civil liability provisions of such laws.

We have been advised by Linklaters that there is doubt as to the enforceability in the U.K., in original actions or in actions for enforcement of judgments of U.S. courts, of liabilities predicated upon the U.S. Federal securities laws.

RATIO OF EARNINGS TO FIXED CHARGES

Set forth in the table below are the ratios of earnings to fixed charges in accordance with U.K. GAAP and U.S. GAAP for each of five years in the period ended March 31, 2000.

	Year ended March 31				
	1996	1997	1998	1999	2000
In accordance with U.K. GAAP	7.5	8.5	8.3	10.7	7.2
In accordance with U.S. GAAP	7.1	9.0	7.4	9.7	5.9

The ratio of earnings to fixed charges is calculated by dividing (i) income from continuing operations before income taxes ("earnings") plus fixed charges by (ii) fixed charges. Fixed charges consist of gross interest expense.

THE COMPANY

In this prospectus, "BT", "the Company", "we", "our" and "us" refer to British Telecommunications plc, its predecessors and its consolidated subsidiaries except as the context otherwise requires.

USE OF PROCEEDS

We will use the net proceeds from the sale of the debt securities offered for general corporate purposes, unless we state otherwise in a prospectus supplement.

DESCRIPTION OF THE DEBT SECURITIES

This prospectus relates to the debt securities that we may issue from time to time in one or more series. The specific financial, legal and other terms particular to a series of debt securities will be described in the prospectus supplement for that series of debt securities. As required by U.S. federal securities law for all bonds and notes of companies that are publicly offered, the debt securities will be governed by a document called the indenture. Citibank, N.A. will act as the trustee under the indenture.

When we issue a series of debt securities, we will deposit on the same day a global security, which is a special type of indirectly held security, with Citibank, N.A. The global security will represent the entire interest of any series of debt securities. The depositary will hold the global security for the benefit of The Depository Trust Company (DTC). The beneficial interests in the debt securities will be traded in DTC's book-entry settlement system. The relationship between us, the depositary and the beneficial holders of the debt securities will be governed by a deposit agreement.

The form of indenture and the form of deposit agreement are exhibits to our registration statement. For information on how to obtain a copy, see "Where You Can Find More Information" beginning on page 1.

This section summarizes all material terms of the debt securities that are common to all series, unless otherwise indicated in the prospectus supplement relating to a particular series. Because this section is a summary, it does not describe every aspect of the debt securities. This summary is subject to and qualified in its entirety by reference to all the provisions of the indenture and the deposit agreement, including some of the terms used in the indenture and the deposit agreement. We also include references in parentheses to some sections of the indenture. This summary is also subject to and qualified by reference to the description of the particular terms of your series of debt securities described in the prospectus supplement for your series of debt securities. Whenever we refer to particular sections or defined terms of the indenture or the deposit agreement in this prospectus or a prospectus supplement, those sections or defined terms are incorporated by reference here or in the prospectus supplement.

The Indenture and Prospectus Supplements

The indenture will provide that:

- notes, debentures and other debt securities may be issued in separate series at any time, in an unlimited aggregate principal amount;
- we may specify a maximum aggregate principal amount for debt securities of any series;
- the debt securities may not have terms and provisions that are inconsistent with the indenture; and
- unless otherwise specified in the prospectus supplement, the debt securities will be unsecured and unsubordinated obligations, ranking at least equally with all our other unsecured and unsubordinated obligations.

The prospectus supplement that relates to your debt securities will specify the following terms:

- the title of the debt securities;
- any limit on the aggregate principal amount of the debt securities;

- whether the debt securities are to be issuable as registered securities or bearer securities, or both, and whether any of the debt securities are to be issuable in global form;
- the price or prices, expressed as a percentage of the aggregate principal amount of the debt securities, at which the debt securities will be issued;
- the date or dates on which the debt securities will mature;
- the rate or rates which may be fixed or variable at which the debt securities will bear interest, if any, and the date or dates from which that interest will accrue;
- the interest payment date or dates on which that interest will be payable and the applicable record date or dates for any interest payment;
- the place or places where any amounts will be payable;
- any obligation we may have to redeem or purchase any of the debt securities pursuant to any mandatory or optional sinking fund or analogous provision as well the relevant prices, periods and other terms;
- the terms for redemption, extension or early repayment, if any, of the debt securities;
- if other than the entire principal amount, the portion of the debt securities payable upon acceleration of the maturity of the debt securities;
- our right to defease the debt securities;
- if not in dollars, the currency or currencies, including composite currencies, of payment of principal of and any premium and interest on the debt securities;
- whether any part or all of the debt securities will be issued as global securities;
- any part or all of the debt securities will be issued as global securities, the depositaries to be used for the global securities, the legends to be placed on the global securities and the circumstances in which a global security may be exchanged for certified (physical) securities; and
- any other terms of the debt securities.

Any such prospectus supplement will also describe any special provisions for the payment of additional amounts with respect to the debt securities.

The prospectus supplement, under "Taxation", will describe the following matters:

- U.S. federal income tax consequences and other special circumstances applicable to debt securities that are original issue discount debt securities, which are debt securities that are offered and sold at a substantial discount to their stated principal amount;
- U.S. federal income tax consequences applicable to debt securities that are not denominated in U.S. dollars; and
- U.K. tax considerations applicable to a particular series of debt securities, or to the debt securities in general.

Conversion Rights

The terms under which debt securities of any series may be convertible into ordinary shares or other securities or property will be set out in the applicable prospectus supplement. The terms will include provisions as to whether conversion is mandatory or optional. The terms may include provisions governing the calculation of the number of ordinary shares or other securities or property that a holder of debt securities would receive upon conversion.

Form of Securities; Settlement and Clearance

Unless otherwise specified in the prospectus supplement, debt securities will be:

- initially represented by one or more global securities in bearer form;
- issued without coupons attached;
- issued in a total amount equal to the aggregate principal amount of outstanding debt securities that the global security represents;
- in denominations that are even multiples of $1,000; and
- the property of the person in possession of the global security, in the case of a bearer global security, and the property of the person in whose name the global security is registered, in the case of a global security in registered form. Title to a global security in bearer form will pass by delivery.

On the day we issue any series of debt securities, we will deposit one or more global securities representing the series of debt securities with the depositary. The depositary will in turn issue one or more certificateless depositary interests to DTC in New York City. DTC will enter the certificateless depositary interests into its book-entry settlement system and issue book-entry interests, which are beneficial interests in the underlying debt securities, to financial institutions, acting as participants in DTC. You will hold your beneficial interests in the debt securities through accounts with these financial institutions. Beneficial interests may only be transferred in the same authorized denominations as the corresponding debt securities. As long as the debt securities are represented by global securities, the interests in the global securities may not be transferred by DTC except as a whole by DTC to its nominee, or by a nominee of DTC to DTC or another of its nominees, or by DTC or its nominee to a successor of DTC or a nominee of such successor.

Institutions that have accounts with DTC or a nominee of DTC, such as securities brokers and dealers, are called participants. Only participants, and persons that hold beneficial interests through participants, can own a beneficial interest in the global securities. DTC keeps records of the ownership and transfer of beneficial interests in the global securities by its participants. In turn, participants keep records of the ownership and transfer of beneficial interests in the global securities by other persons (such as their customers). No other records of the ownership and transfer of beneficial interests in the global securities will be kept. In some jurisdictions, some kinds of purchasers (such as some insurance companies) are not permitted to own securities represented by a global security. These laws may limit your ability to sell or transfer your beneficial interest in the global securities to these types of purchasers.

The depositary or its nominee will be considered the sole owner and holder of the global securities for all purposes. As a result:

- You cannot get debt securities registered in your name for as long as they are represented by the global securities.
- You cannot receive certificated (physical) debt securities in your name in exchange for your beneficial interest in a global security.
- You will not be considered to be the owner or holder of a global security or any debt securities represented by a global security for any purpose.

In order to exercise any rights of holders, each person owning a book-entry interest must rely on the procedures of the depositary and DTC. If you are not a participant, you must also rely on the procedures of the participant or other securities intermediary through which you own your interest.

Payments on the global security. Unless otherwise specified in the prospectus supplement, payments will be made through the corporate trust office of Citibank, N.A. in New York City to the depositary, as the holder of the debt securities. Our responsibility will be discharged once we have made payment to the depositary. Under the deposit agreement, the depositary will then make payment to DTC. We, the trustee, the depositary and our agents will have no responsibility for the payment records of DTC or any of its participants.

Information about DTC, Euroclear and Clearstream, Luxembourg

We understand with respect to DTC, Euroclear and Clearstream, Luxembourg as follows:

DTC is:

- a limited-purpose trust company organized within the meaning of the New York Banking Law;
- a "banking organization" under the New York Banking Law;
- a member of the Federal Reserve System;
- a "clearing corporation" within the meaning of the New York Uniform Commercial Code; and
- a "clearing agency" registered under Section 17A of the Exchange Act.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between its participants. It does this through electronic book-entry changes in the accounts of its direct participants, eliminating the need for physical movement of securities certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its direct participants and by the New York Stock Exchange, the American Stock Exchange Inc. and the National Association of Securities Dealers, Inc. Others, such as securities brokers and dealers, banks and trust companies, that clear through or maintain a custodial relationship with a direct participant, also have access to the DTC system, and are known as indirect participants.

We understand that DTC will only take action permitted in respect of the debt securities if directed by any direct participant and only in respect of the amount of debt securities held by that direct participant.

Euroclear and Clearstream, Luxembourg. Like DTC, Euroclear and Clearstream, Luxembourg hold securities for their participants and facilitate the clearance and settlement of securities transactions between their participants through electronic book-entry changes in the accounts of their participants. Euroclear and Clearstream, Luxembourg provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream, Luxembourg participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and other organizations. Other banks, brokers, dealers and trust companies have indirect access to Euroclear or Clearstream, Luxembourg by clearing through or maintaining a custodial relationship with Euroclear or Clearstream, Luxembourg participants. Euroclear and Clearstream, Luxembourg do not have any record of or relationship with persons holding through their participants.

The Deposit Agreement

Redemption. If and when the global securities are redeemed, the depositary will deliver all amounts it receives in respect of the redemption to DTC.

Limitations on Your Ability to Obtain Definitive Securities. The global securities will not be registered in the name of any person other than the depositary or its nominee. You will not receive physical delivery of any securities. The global securities will not be exchanged for debt securities that are registered in the name of any person other than the depositary or its nominee. An exception to these restrictions would be made only if:

- DTC notifies the depositary that it is unwilling, unable or no longer qualified to continue to act as depositary and a successor that is registered under the Exchange Act is not appointed within 120 days;
- the depositary notifies us and the trustee that it is unwilling or unable to continue to act as depositary and we do not appoint a successor within 120 days;
- in the event we are subject to a winding-up, and we fail to make a payment on the debt securities when due;
- an event of default has occurred or is continuing; or

- at any time we decide that we no longer wish to have all or part of the debt securities represented by a global security.

In those circumstances, DTC will specify in whose names to register any definitive securities issued in exchange for the global securities.

Payment on and Transfer of Definitive Securities. Any definitive securities will be issued in registered form in the same authorized denominations as the debt securities to which they correspond. Payments will be made to the person whose name appears on the register. When payments are made in U.S. dollars, the payments will be made by a check drawn on a bank in New York. You should present definitive securities to any paying or transfer agent for redemption. You may transfer the definitive security by surrendering it at the specified office of the transfer agent, along with any forms or other evidence that the transfer agent requires. For a partial transfer, new definitive securities in permitted denominations can be obtained at the office of the trustee or of any paying or transfer agent. The trustee or the paying or transfer agent will not transfer any definitive security during the 15 days preceding the following dates:

- the due date for any payment with respect to that series of securities; or
- the date of redemption of that security.
- To the extent permitted by law, we, the trustee and any of our or its agents may treat the registered holder of any definitive securities as the absolute owner thereof.

Holders or owners of beneficial interests in debt securities should know that under current U.K. law, any payments of interest on securities in definitive form (see Section 305(a) of the indenture which describes the circumstances under which global securities are exchangeable for definitive securities) of any series will be subject to withholding under U.K. income tax. The percentage is currently 20 per cent. Subject to some limitations and unless otherwise stated in the prospectus supplement, we will be required to pay additional amounts for definitive securities. If we are required to pay additional amounts for any series of definitive securities, we may be entitled to redeem that series of debt securities. Please see "Additional Amounts" and "Optional Tax Redemption," below, for further information.

Replacement of Definitive Securities. If any definitive security is mutilated, destroyed, stolen or lost, it can be replaced at the specified office of the trustee or any transfer or paying agent. You must pay any expenses that we incur in connection with the replacement. These expenses include any fees due to the trustee or the transfer or paying agent and any reasonable indemnity. Mutilated definitive securities must be surrendered before replacements will be issued.

Reports. The deposit agreement requires the depositary to immediately send to DTC a copy of any communication received that relates to us or to any series of debt securities.

Action by the Depositary. The deposit agreement requires the depositary to exercise any of its rights or powers vested in it by the deposit agreement as requested by DTC. The depositary must be offered satisfactory security or indemnity against the costs, expenses and liabilities that it might incur through compliance with such a request.

Amendment of the Deposit Agreement. The deposit agreement may be amended without the consent of DTC or the owners of book-entry interests in the debt securities under the following circumstances:

- to cure any ambiguity, omission, defect or inconsistency;
- to add to the covenants and agreements of either us or the depositary;
- to assign the depositary's rights and duties to a qualified successor;
- to comply with the Securities Act of 1933 (the "Securities Act"), the Exchange Act, the U.S. Investment Company Act of 1940, the U.S. Trust Indenture Act of 1939, or any other applicable law; and

- to modify, alter or supplement the deposit agreement in any way that is not adverse to the interests of DTC or the owners of book-entry interests.

Resignation or Removal of Depositary. The depositary may resign at any time, following 60 days' written notice to us and to DTC. The depositary may be removed at any time with 90 days' written notice, and under specific circumstances, immediately. Resignation or removal will be effective upon the appointment of a successor depositary.

If we are unable to appoint a successor promptly, DTC or the depositary may petition any court of competent jurisdiction for the appointment of a successor, unless definitive securities have been issued with respect to all outstanding debt securities. We will bear any expense for the petition.

Obligations of the Depositary. The depositary will assume no obligation or liability under the deposit agreement or any agreement with DTC, other than to use good faith and reasonable care. We will indemnify the depositary against specified liabilities that it may incur under the deposit agreement.

Paying Agents

We will maintain one or more paying agents in each place of payment for the debt securities of a particular series. The corporate trust office of the trustee in New York City will be the paying agent unless we designate another paying agent for a particular series in the prospectus supplement. At any time, we may designate additional paying agents, rescind the designation of any paying agents, or approve a change in the office through which a paying agent acts. However, we are required to maintain a paying agent in London.

All funds that we pay to a paying agent that remain unclaimed more than two years after the amount has become due and payable will be repaid to us. At that point, any unpaid holder may look directly to us for payment.

Optional Tax Redemption

Unless otherwise indicated in a prospectus supplement, debt securities are not subject to redemption except as provided in the following paragraphs.

If we (or our successor) must pay any additional amounts for your series of debt securities because of either:

(i) any changes in U.K. (or our successor's jurisdiction of organization) tax law that are effective on or after the date of the prospectus supplement (or the date a party organized in a jurisdiction other than the U.K. becomes our successor); or

(ii) a consolidation, merger, conveyance, transfer or lease of our assets to a person who agrees to indemnify you against any tax imposed on you or required to be withheld from any payment to you as a consequence of any of these events, we (or that other person) may redeem all, but not some, of the outstanding securities in your series. If we (or that other person) decide to redeem your securities, we (or that other person) will give you at least 30 days' notice and will pay you the principal amount of your securities plus any accrued interest. We (or that other person) cannot notify you of any redemption until 60 days before the earliest date on which we (or that other person) must pay additional amounts if we (or that other person) were to make payment on your securities on that date.

Before giving notice of the redemption, in the case of (i) above, we must give the trustee an opinion of independent legal counsel of recognized standing stating that we are entitled under the indenture to redeem the securities and a certificate with a statement of facts showing that the conditions giving us the right to redeem have occurred. In the case of (ii) above, that other person must deliver an officer's certificate, stating that they are entitled under the indenture to redeem the securities, and a statement of circumstances showing that the conditions giving that person the right to redeem have occurred.

After the redemption date, if funds for the redemption of the debt securities are made available on the redemption date, the debt securities will stop bearing interest, and the only right of the holders will be to receive payment of the redemption price and all unpaid interest accrued to the date of redemption.

Payment of Additional Amounts

All payments made by us in respect of any debt security will be made without withholding or deduction for any taxes imposed by the United Kingdom, unless they are required by law to be withheld or deducted. If any deduction or withholding is required for any taxes imposed by the United Kingdom, then, subject to the exceptions described below, we will pay you the additional amounts necessary to ensure that the payment to you will not be less than the amount that you would have received in the absence of such withholding or deduction.

However, we will not be required to make any payment of additional amounts to you to the extent any of the following circumstances (or any combination of these circumstances) applies:

- either you or a person to whom a payment is made on your behalf are liable for taxes on your securities because of some connection with the United Kingdom other than merely holding your securities or receiving principal, interest or other amounts on your securities;

- presentation is required and you present your securities for payment more than 30 days after the relevant date on which the payment first becomes due and payable, unless you would have been entitled to additional amounts if you presented your securities for payment before the date 30 days after the relevant date;

- any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge that is payable in respect of the debt securities;

- any tax, duty, assessment or other governmental charge payable other than by withholding or deduction from any payment on the debt securities applies in respect of the debt securities;

- you are liable for any tax, duty, assessment or other governmental charge because of your failure to comply with our request addressed to you to provide information pursuant to any reporting requirement;

- you could have presented your securities to a different paying agent and avoided any applicable withholding or deduction; or

- you are subject to tax, duty, assessment or other governmental charge because of your request for a definitive security after an event of default.

In addition, we will not make payment of additional amounts to you if you are a fiduciary or partnership or are not the sole beneficial owner of the payment to the extent that no additional amounts would have been payable by us had the payments been made directly to the beneficiary or settlor of such fiduciary or a member of such partnership, or to an owner of a beneficial interest in a debt security.

Restrictive Covenants

Unless otherwise specified in the prospectus supplement, the indenture will not contain any covenants restricting our ability to make payments, incur indebtedness, dispose of assets, enter into sale and leaseback transactions, pledge our assets to secure borrowings, issue and sell capital stock, enter into transactions with affiliates, create or incur liens on our property or engage in business other than our present business.

Events of Default

Any one of the following events will constitute an event of default under the indenture with respect to debt securities of any series:

- our failure to pay any interest on any debt security of that series when due, continued for 30 days;
- our failure to pay principal of or premium, if any, on any debt security of that series when due;
- our failure to pay or satisfy any sinking fund payment, when due, or beyond any period of grace provided with respect thereto, in respect of any debt security of that series;
- our failure to perform any other covenant in the indenture (other than a covenant included in the indenture solely for the benefit of a series of debt securities other than that series), continued for 90 days after written notice as provided in the indenture;
- the entry of a decree or order for relief in respect of an involuntary proceeding under any bankruptcy, liquidation, insolvency, reorganization or other similar law;
- any other event of default provided with respect to debt securities of that series; and
- our failure to pay any indebtedness for borrowed money, amounting in aggregate to not less than the higher of
  - £25,000,000 (or the equivalent in other currencies) and
  - 1 per cent. of the sum of our paid up share capital plus the total of the capital, revaluation and revenue reserves of the group as shown in our latest audited consolidated balance sheet, determined in accordance with U.K. GAAP, subject to adjustments specified in the indenture.

If an event of default occurs and is continuing, then the trustee or the holders of not less than 25 per cent. in aggregate principal amount of the debt securities of that series then outstanding may by written notice to us declare the principal amount (or, if the debt securities of that series is an original issue discount security, such portion of the principal amount as may be specified in the terms of that series) of all the debt securities of that series to be due and payable immediately. At any time after a declaration of acceleration with respect to debt securities of any series has been made, but before a judgment or decree for payment of money has been obtained by the trustee, the holders of a majority in aggregate principal amount of the debt securities of any series outstanding may, under certain circumstances, rescind and annul such acceleration.

Subject to the indenture, the trustee is under no obligation to exercise any of its rights at your request unless you have offered a reasonable security or indemnity. Subject to the indenture, the holders of a majority of the aggregate principal amount of the debt securities of any series outstanding will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee with respect to the debt securities of that series.

You will not have the right to institute any proceeding with respect to the indenture or the debt securities of any series, other than proceedings for the payment of overdue principal, interest or other amounts due, unless:

- you give prior written notice to the trustee, pursuant to the indenture of a continuing event of default with respect to the debt securities of that series;
- the holders of at least 25 per cent. in aggregate principal amount of the debt securities of that series make a written request, and offer reasonable indemnity, to the trustee to institute proceedings;
- the trustee does not receive an inconsistent request from the holders of a majority in aggregate principal amount of the outstanding debt securities of that series; and
- the trustee fails to institute the proceeding within 60 days.

This limitation does not apply to a suit by a holder for the enforcement of a payment on or after the due date for such payment.

We promise in the indenture to file a certificate with the trustee each year, regarding:

- our performance of certain of our obligations under the indenture; and
- the absence of defaults (if there are none) or the specific defaults that exist as well as their nature and status.

Defeasance and Discharge

The prospectus supplement will state if any defeasance provision will apply to the debt securities.

The indenture provides that, if applicable, we will be discharged from any and all obligations in respect of the debt securities of any series (except for certain obligations to register the transfer or exchange of debt securities of such series, to replace stolen, lost or mutilated debt securities of such series, to maintain paying agencies and to hold monies for payment in trust) upon the deposit with the trustee, in trust;

(1) in the case of debt securities denominated in U.S. dollars, U.S. money in an amount, or U.S. Government Obligations (which through the payment of interest and principal in respect of the debt securities in accordance with their terms will provide U.S. money in an amount), or a combination of the debt securities (provided, however, that in the case of debt securities of any series issued in whole or in part in bearer form, not more than 50 per cent. (determined with respect to both value and income) of the deposited collateral shall consist of U.S. Government Obligations); or

(2) in the case of debt securities of such series denominated in a foreign currency (other than a composite currency), money in the foreign currency in an amount or foreign government securities in the same foreign currency (which through the payment of interest and principal in respect thereof in accordance with their terms will provide money in the foreign currency in an amount), or a combination of the debt securities, sufficient, in case of both (1) and (2), to pay the principal of and premium, if any, each instalment of interest, if any, on, and any mandatory sinking fund payments or analogous payments with respect to, the debt securities of such series on the payment date or other payment date of such payments in accordance with the terms of the indenture and the debt securities of such series. Such a trust may only be established if, among other things,

- we have received from, or there has been published by, the U.S. Internal Revenue Service a ruling to the effect that holders of the debt securities of such series will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit, defeasance and discharge and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same times, as would have been the case if such deposit, defeasance and discharge had not occurred, and
- we have delivered to the trustee an opinion of counsel (who may be an employee of ours or our counsel) to the effect that the debt securities of such series, if then listed on the New York Stock Exchange, will not be delisted as a result of such deposit, defeasance and discharge.

Modification and Waiver

Generally, to modify or amend the indenture or the terms and conditions of the debt securities and to receive a waiver of future compliance or past defaults we need the consent of the holders of a majority in aggregate principal amount of the outstanding debt securities affected by the modification, amendment or waiver. The following actions, however, may only be taken with the consent of the holder of each debt security affected:

- a change of the due date for payment of the principal of, or any instalment of principal of or interest on, any debt security;
- a reduction in the principal amount of, or the premium, if any, or the rate of interest, if any, on any debt security;
- a change in our obligation to pay additional amounts, except as otherwise permitted by the indenture;

- a reduction in the amount of principal of an original issue discount security payable upon acceleration of the payment date of the debt securities;
- to change the coin or currency in which any debt security or any premium or interest on the debt securities is payable;
- to impair the right to institute suit for the enforcement of any payment on or with respect to any debt security;
- a reduction in the percentage in principal amount of debt securities outstanding of any series, the consent of whose holders is required for modification or amendment of the indenture or for waiver of compliance with certain provisions of the indenture or for waiver of certain defaults;
- a reduction in the requirements contained in the indenture for quorum or voting;
- a change in our obligation to maintain an office or agency in the places and for the purposes required by the indenture;
- to modify or affect in any manner adverse to the interests of the holders of such debt securities our obligations regarding the due and punctual payment of the principal of the debt securities, and premium, if any, and interest, if any, on the debt securities or the sinking fund or analogous payments, if any, with respect to such debt securities; or
- to modify any of the above provisions.

The holders of at least two-thirds in aggregate principal amount of the debt securities outstanding of each series may, on behalf of the holder of all the debt securities of that series, waive, insofar as that series is concerned, our compliance with any covenant or condition with respect to the debt securities of that series under the indenture. The holders of not less than a majority in aggregate principal amount of the debt securities outstanding of each series may, on behalf of all holders of debt securities of that series, waive any past default under the Indenture with respect to debt securities of that series, except a default:

- in the payment of the principal of, premium, if any, or interest, if any, on any debt security of such series; or
- in respect of a covenant or provision of the indenture which cannot be modified or amended without the consent of the holder of each debt security outstanding of such series affected.

Consolidation, Merger, Conveyance, Transfer or Lease

We may consolidate or merge with or into, or convey, transfer or lease our properties or assets substantially as an entirety to any person; provided that:

- after giving effect to the transaction, no event of default, and no event which, after notice or lapse of time, would become an event of default, shall have occurred and be continuing;
- the purchaser or the successor:
  (1) expressly assumes, by an amendment to the indenture and the debt securities, all of our obligations under the indenture and the debt securities;

  (2) is a corporation, partnership or trust organized and validly existing under the laws of the U.K., or under the laws of the United States or any political subdivision of the United States (a successor jurisdiction); and

  (3) if organized under the laws of a successor jurisdiction, agrees to assume our obligations under the debt securities to pay additional amounts as discussed under "Additional Amounts," above, substituting the name of the successor jurisdiction for the United Kingdom in each place that the United Kingdom appears in "Payments of Additional Amounts," above.

A person's assumption of our obligations may be considered to be an exchange of the debt securities for new debt securities under U.S. federal income tax law. This deemed exchange may result in your recognizing gain or loss for U.S. federal income tax purposes and may have other tax consequences that are adverse to you. You should consult your own tax advisor about the potential tax consequences.

Replacement of Debt Securities

We will replace any mutilated debt security at the expense of the holder upon surrender of such debt security to the trustee. We will replace debt securities that are destroyed, stolen or lost at the expense of the holder upon delivery to the trustee of the debt security or evidence of the destruction, loss or theft of the debt securities satisfactory to us and the trustee. In the case of a destroyed, lost or stolen debt security, an indemnity satisfactory to us and the trustee and that may be required at the expense of the holder of such debt security before a replacement debt security will be issued.

Consent to Service

In the indenture we designate the trustee and their authorized agent for service of process in any legal action or proceeding arising out of or relating to the indenture or the debt securities brought in any U.S. federal or State court in the Borough of Manhattan, the City of New York, New York and irrevocably submit to the non-exclusive jurisdiction of such courts.

Governing Law

The debt securities and the indenture are governed by the laws of the State of New York. Any action arising out of the indenture or any of the debt securities may be brought in any state or federal court in the Borough of Manhattan, the City of New York. We will irrevocably submit to the non-exclusive jurisdiction of any of these courts in any such actions and we will appoint an authorized agent upon which you may serve process.

The Trustee

The trustee for the debt securities is Citibank, N.A.

If an event of default occurs, or if an event occurs which would become an event of default after notice or the passage of time, and if the trustee has a conflicting interest with respect to the debt securities according to the U.S. Trust Indenture Act of 1939, then the trustee may be required to resign unless the trustee can eliminate the conflicting interest. In that case, we would be required to appoint a successor trustee.

Proposed EU Directive on the Taxation of Savings Income

In June 2000, the European Council agreed to amend earlier proposals published in May 1998 by the European Commission regarding the taxation of income of non-residents and relating, in particular, to the introduction of withholding tax on payments of interest. Subject to sufficient reassurances being obtained from a number of countries outside the European Union to promote the adoption of equivalent measures, the European Council has now agreed that Member States will be required no later than December 31, 2002 either (a) to exchange information with other Member States regarding savings income paid to non-residents or (b) to withhold tax on such income at a rate to be agreed, provided that Member States that operate a withholding system must implement exchange of information as soon as conditions permit and in any case no later than seven years after implementation of the proposals.

The United Kingdom intends to opt for exchange of information rather than withholding under these proposals through implementation of the Finance Bill 2000 provisions noted above.

PLAN OF DISTRIBUTION

We may sell the debt securities in any of four ways:

- directly to purchasers;
- through agents;
- through underwriters; or
- through dealers.

Offers to purchase debt securities may be made by potential investors or their agents on an unsolicited basis or may be solicited directly by us or an agent designated by us from time to time. The applicable prospectus supplement or prospectus supplements will set forth:

- the terms of the offering of the debt securities, including the name or names of any agents, underwriters or dealers;
- the purchase price of the debt securities and our proceeds from such sale;
- any underwriting discounts and other items constituting underwriters' compensation; and
- any discounts and commissions allowed or reallowed or paid to dealers or agents.

We may change any initial public offering price and any discounts or concessions to dealers or agents from time to time.

In connection with the sale of debt securities, underwriters or agents may receive compensation from us in the form of underwriting discounts or commissions. Underwriters may sell debt securities to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters. Underwriters, dealers and agents participating in the distribution of debt securities may be deemed to be underwriters, and any discounts and commissions received by them and any profit realized by them on resale of the debt securities may be deemed to be underwriting discounts and commissions, under the Securities Act. We may enter into agreements which will entitle the underwriters, dealers and agents to indemnification by us against and contribution toward certain liabilities, including liabilities under the Securities Act.

The debt securities may be distributed from time to time in one or more transactions, including negotiated transactions, at a fixed price or prices, which may be changed, or at varying prices.

The debt securities will be a new issue of securities with no established trading market. If indicated in the prospectus supplement, any underwriters or agents, to whom we sell the debt securities for public offering, may make a market in the debt securities, but will have no obligation to do so, and may discontinue any market at any time without notice. We cannot give any assurance as to the liquidity of the trading market for any debt securities.

Certain underwriters, dealers and agents and their associates may be customers of, engage in transactions with or perform services for us, including our subsidiaries, in the ordinary course of their business.

LEGAL MATTERS

Certain legal matters relating to the validity of the debt securities will be passed upon for us by Shearman & Sterling, U.S. counsel to BT, and for any underwriters or agents by Cleary, Gottlieb, Steen & Hamilton. Shearman & Sterling and Cleary, Gottlieb, Steen & Hamilton will not pass upon the incorporation of BT or other matters governed by English law, which will be passed upon by Linklaters.

EXPERTS

The financial statements incorporated in this prospectus by reference to the Annual Report on Form 20-F for the year ended March 31, 2000, have been so incorporated in reliance on the report of PricewaterhouseCoopers, independent accountants, given on the authority of said firm as experts in auditing and accounting.

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