



British Telecommunications public limited company

*(Incorporated with limited liability in England and Wales under the Companies Acts 1948 to 1981)
(Registered Number: 1800000)*

£300,000,000
8⁵/₈ per cent. Bonds 2020
Issue price 100.765 per cent.

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Lehman Brothers S.G. Warburg Securities
Barclays de Zoete Wedd Limited CS First Boston
HSBC Markets NatWest Capital Markets Limited
Cazenove & Co.

This document comprises listing particulars given in compliance with the rules of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited (the "London Stock Exchange") made under the Financial Services Act 1986 for the purpose of giving information with regard to British Telecommunications public limited company (the "Issuer", the "Company" or "BT") and its subsidiaries (together the "Group") and the £300,000,000 8½ per cent. Bonds 2020 of the Issuer (the "Bonds"). The Issuer accepts responsibility for the information contained in this document. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

A copy of this document, which comprises listing particulars approved by the London Stock Exchange as required by Section 149 of the Financial Services Act 1986, has been delivered to the Registrar of Companies in England and Wales. Application has been made to the London Stock Exchange for the Bonds to be admitted to the Official List.

No person has been authorised to give any information or to make any representations other than those contained in this document in connection with the offering of the Bonds and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer or the Managers (as defined herein). Neither the delivery of this document nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof. This document does not constitute an offer of, or an invitation by, or on behalf of, the Issuer or the Managers to subscribe for, or purchase, any of the Bonds.

The distribution of this document and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions.

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and are subject to US tax law requirements. Subject to certain exceptions, the Bonds may not be offered, sold or delivered within the United States or to US persons. For a further description of certain restrictions on the offering and sale of the Bonds and on distribution of this document, see "Selling Restrictions" below.

The Bonds will initially be represented by a temporary global bond (the "Global Bond") which will be deposited with a common depository for Cedel, société anonyme ("Cedel") and Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") on or about 23rd August, 1994 (the "Closing Date") and will be exchangeable for definitive Bonds not earlier than 3rd October, 1994 upon certification of non-US beneficial ownership.

All references herein to "sterling", "pounds" and "£" are to the currency of the United Kingdom.

In connection with this issue, S.G. Warburg Securities Ltd. may over-allot or effect transactions which stabilise or maintain the market price of the Bonds at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.

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TERMS AND CONDITIONS OF THE BONDS

The following (subject to completion and amendment) is the text of the Terms and Conditions of the Bonds which will be endorsed on each Bond in definitive form:

The £300,000,000 8½ per cent. Bonds 2020 (the "Bonds", which expression shall in these Terms and Conditions, unless the context otherwise requires, include any further bonds issued pursuant to Condition 14 and forming a single series therewith) of British Telecommunications public limited company (the "Issuer") are constituted by a Trust Deed dated 23rd August, 1994 (the "Trust Deed") made between the Issuer and The Law Debenture Trust Corporation p.l.c. (the "Trustee") as trustee for the holders of the Bonds (the "Bondholders"). The issue of the Bonds was authorised pursuant to a resolution of the Board of Directors of the Issuer passed on 26th April, 1994. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. In relation to the Bonds, the Issuer and the Trustee have entered into an agency agreement dated 23rd August, 1994 (the "Agency Agreement") with, among others, Citibank, N.A. as initial principal paying agent. Copies of the Trust Deed and the Agency Agreement are available for inspection by Bondholders and the holders of the interest coupons (the "Couponholders" and the "Coupons" (which expression shall in these Terms and Conditions, unless the context otherwise requires, include the Talons) respectively) and the talons for further interest coupons (the "Talons") appertaining to the Bonds at the registered office of the Trustee, being at the date hereof at Princes House, 95 Gresham Street, London EC2V 7LY, and at the specified office(s) of each of the paying agents referred to below. The Bondholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement.

1. FORM AND DENOMINATION

The Bonds are in bearer form, serially numbered, in denominations of £1,000, £10,000 and £100,000 each with Coupons and one Talon attached on issue. Bonds of one denomination may not be exchanged for Bonds of another denomination.

2. STATUS

The Bonds and the Coupons are direct, unconditional and unsecured obligations of the Issuer and rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future.

3. INTEREST

The Bonds bear interest from, and including, 23rd August, 1994 at the rate of 8½ per cent. per annum, payable annually in arrear on 26th March, except that the first payment of interest, which will be made on 26th March, 1995, will be in respect of the period from, and including, 23rd August, 1994 to, but excluding, 26th March, 1995 and will amount to £51.03 per £1,000 principal amount of the Bonds.

Each Bond will cease to bear interest from the due date for redemption unless, upon due presentation, payment of the principal is improperly withheld or refused. In such event, interest will continue to accrue (after as well as before any judgment) up to but excluding the date on which, upon further presentation, payment in full of the principal thereof is made or (if earlier) the seventh day after notice is duly given to the holder of such Bond in accordance with Condition 11 that upon further presentation of such Bond being duly made such payment will be made, provided that upon further presentation thereof being duly made, such payment is in fact made.

Whenever it is necessary to compute an amount of interest in respect of any Bond for a period of less than a full year, such interest shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

4. PAYMENTS AND EXCHANGES OF TALONS

Payments of principal and interest in respect of the Bonds will (subject as provided below) be made against presentation and surrender of the Bonds or Coupons, as the case may be, at any specified office of any of the paying agents. All such payments will be made in sterling at the specified office of the paying agent in London or, at the option of the holder, at any specified office of any paying agent by a sterling cheque drawn on a Town Clearing branch of, or by transfer to a sterling account maintained by the payee with, a bank in London.

Payments in respect of principal and interest on the Bonds are subject in all cases to any tax, fiscal or other laws and regulations applicable thereto, but without prejudice to the provisions of Condition 6.

Bonds must be surrendered for payment together with all unmatured Coupons, if any, appertaining thereto (for this purpose treating any Coupon falling to be issued on exchange of a matured Talon as an unmatured Coupon), failing which the face amount of any missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal amount due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against presentation and surrender of the relative missing Coupon not later than five years from the date on which such Coupon would have become due. If the Bonds become due and repayable prior to 26th March, 2020 all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

If the due date for redemption of any Bond is not 26th March in any year, interest accrued in respect of such Bond from, and including, the last preceding 26th March or, if such due date for redemption is before 26th March, 1995, 23rd August, 1994 to, but excluding, the date of redemption will be paid only against surrender of such Bond.

If the due date for payment of any amount in respect of any Bond or Coupon is not a business day, then the holder thereof shall not be entitled to payment of the amount due until the next following business day nor to any further interest or other payment in respect of such delay. The expression "business day" in this Condition 4 means a day on which banks are open for business and carrying on transactions in sterling in the place where the Bond or Coupon is presented and in London.

On and after the date on which the final Coupon comprised in any Coupon sheet matures, the Talon comprised in the Coupon sheet may be surrendered at the specified office of any paying agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to, and including, the final date for the payment of interest due in respect of the Bond to which it appertains) a further Talon, subject to the provisions of Condition 7. Each Talon shall, for the purposes of these Terms and Conditions, be deemed to mature on the date on which the final Coupon comprised in the relative Coupon sheet matures.

The names of the initial principal and other paying agents and their initial specified offices are set out below. The Issuer reserves the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any paying agent and to appoint additional or other paying agents provided that it will, so long as any of the Bonds are outstanding (as defined in the Trust Deed), maintain at least two paying agents having specified offices in European cities approved by the Trustee, one of which, so long as the Bonds are listed on The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited, shall be London and the other of which shall be in continental Europe. Notice of any such termination or appointment and of any changes in the specified offices of the paying agents will be given by the Issuer to the Bondholders in accordance with Condition 11.

5. REDEMPTION AND PURCHASE

(i) Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Bonds at their principal amount on 26th March, 2020.

(ii) If the Issuer at any time satisfies the Trustee that, as a result of any actual or proposed change in the laws, regulations or treaties of the United Kingdom or any political sub-division thereof or any authority therein or thereof having power to tax, or in the application or interpretation of such laws, regulations or treaties, on the occasion of the next payment of principal or interest in respect of the Bonds, the Issuer would be unable to make such payment without having to pay additional amounts as provided or referred to in Condition 6, the Issuer may, having given not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), redeem all the Bonds, but not some only, at their principal amount together with interest accrued to the date of such redemption.

It shall be sufficient to establish the existence of the circumstances required to be established pursuant to this paragraph (ii) if the Issuer shall deliver to the Trustee a certificate of an independent lawyer or accountant satisfactory to the Trustee in a form satisfactory to the Trustee to the effect either that such circumstances exist or that, upon a change in the laws, regulations or treaties of the United Kingdom or any political sub-division thereof or any authority therein or thereof having power to tax, or in the application or interpretation thereof, which at the date of such certificate is proposed and which in the

opinion of such lawyer or accountant is reasonably expected to become effective on or prior to the date on which the relevant payment of principal or interest in respect of the Bonds would otherwise be made, becoming so effective, such circumstances would exist.

(iii) The Issuer or any of its Subsidiaries (as defined in the Trust Deed) may at any time purchase Bonds in any manner and at any price. If purchases are made by tender, tenders must be available to all Bondholders alike.

(iv) All Bonds which are redeemed will be cancelled (together with all unmatured Coupons attached thereto or surrendered therewith) and accordingly may not be reissued or resold. Bonds which are purchased by the Issuer or any of its Subsidiaries in accordance with paragraph (iii) above may be held and/or resold or surrendered for cancellation.

6. TAXATION

All payments of principal and interest in respect of the Bonds will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the United Kingdom or any political sub-division thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the holders of the Bonds and Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would have been receivable in respect of the Bonds or, as the case may be, Coupons, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Bond or Coupon presented for payment:—

- (i) by, or on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Bond or Coupon; or
- (ii) by, or on behalf of, a holder who would be able to avoid such withholding or deduction by making a declaration of non-residence or similar claim for exemption or by presenting the relevant Bond or Coupon to a paying agent outside the United Kingdom but in either case fails to do so; or
- (iii) more than 30 days after the Relevant Date except to the extent that the holder thereof would have been entitled to additional amounts on presenting the same for payment on the last day of such period of 30 days.

As used herein, the “Relevant Date” means the date on which such payment first becomes due but, if the full amount of the moneys payable has not been received by the principal paying agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect shall have been duly published in accordance with Condition 11.

Any reference in these Terms and Conditions to principal or interest shall be deemed also to refer to any additional amounts which may be payable under this provision or under any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

7. PRESCRIPTION

The Bonds will become void unless presented for payment within a period of ten years and the Coupons (which for this purpose shall not include Talons) will become void unless presented for payment within a period of five years, in each case from the Relevant Date (as defined in Condition 6) in respect thereof. There shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue under this Condition or Condition 4.

8. TITLE

Title to the Bonds and the Coupons will pass by delivery. The Issuer, the Trustee and any paying agent may deem and treat the bearer of any Bond or Coupon as the absolute owner thereof (whether or not such Bond or such Coupon shall be overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for the purpose of receiving payment and for all other purposes.

9. DEFAULT AND ENFORCEMENT

- (i) If (a) default is made for a period of 28 days or more in the payment of any interest due in respect of the Bonds; or
- (b) there is a failure in the performance of any obligation under the Bonds or the Trust Deed other than an obligation to make payment of principal or interest thereunder:—
- (i) which in the opinion of the Trustee is incapable of remedy; or
- (ii) which, being in the opinion of the Trustee capable of remedy, continues for more than 90 days after written notification requiring such failure to be remedied shall have been given to the Issuer by the Trustee; or
- (c) (except for the purpose of a reconstruction or an amalgamation the terms of which have previously been approved in writing by the Trustee) an order is made (and not discharged or stayed within a period of 90 days) or an effective resolution is passed for winding-up the Issuer or an administration order is made in relation to the Issuer or the Issuer ceases to carry on its business or a substantial part thereof; or
- (d) an administrative or other receiver is appointed of the whole or substantially the whole of the assets of the Issuer and is not removed, paid out or discharged within 90 days or, following such 90 day period, the appointment is not being disputed in good faith; or
- (e) the Issuer is unable to pay its debts or makes a general assignment for the benefit of its creditors; or
- (f) any loan or other indebtedness for borrowed money (as defined in the Trust Deed) of the Issuer, amounting in aggregate to not less than £25,000,000 or its equivalent in other currencies, becomes due and repayable prematurely by reason of an event of default (however described) or the Issuer fails to make any payment in respect thereof on the due date for such payment (as extended by any applicable grace period as originally provided) or the security for any such loan or other indebtedness for borrowed money becomes enforceable and steps are taken to enforce the same or default is made by the Issuer in making any payment due, amounting in aggregate to not less than £25,000,000 or its equivalent in other currencies, under any guarantee or indemnity given by it in respect of any loan or other indebtedness for borrowed money,

the Trustee may at its discretion, and if so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders or in writing by the holders of at least 25 per cent. in principal amount of the Bonds then outstanding shall, (but in the case of (b), (c), (d), (e) and (f) only if it certifies that such event is, in its opinion, materially prejudicial to the interests of Bondholders), give notice to the Issuer that the Bonds are, and they shall accordingly immediately become, due and repayable at their principal amount, plus accrued interest (calculated as provided in the Trust Deed).

(ii) At any time after the Bonds shall have become due and repayable and shall not have been repaid, the Trustee may, at its discretion and without further notice take such proceedings against the Issuer as it may think fit to enforce repayment of the Bonds together with accrued interest but it shall not be bound to take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution of the Bondholders or in writing by the holders of at least 25 per cent. in principal amount of the Bonds then outstanding and (b) it shall have been indemnified to its satisfaction.

(iii) No Bondholder or Couponholder shall be entitled to proceed directly against the Issuer, except that if the Trustee, having become bound so to proceed, fails to do so within a reasonable period and such failure shall be continuing, then any such holder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise), himself take proceedings to the same extent (but not further or otherwise) that the Trustee would have been entitled so to do.

10. REPLACEMENT OF BONDS AND COUPONS

Should any Bond or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the principal paying agent upon payment by the claimant of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses incurred in connection therewith (including the fees and expenses of the principal paying agent and its designated

agents) and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

11. NOTICES

All notices to the Bondholders will be valid if published in a leading London daily newspaper (which is expected to be the *Financial Times*) or such other English language newspaper with general circulation in Europe as the Trustee may approve. Such notices shall be deemed to have been given on the date of such publication or, if published more than once, on the date of the first such publication. If publication is not practicable as aforesaid, notice will be given in such other manner as the Trustee may approve.

12. MEETINGS OF BONDHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Terms and Conditions or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution is two or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented, except that at any meeting the business of which includes the modification of certain of these Terms and Conditions and provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution is two or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and on all Couponholders. The Trustee may agree, without the consent of the Bondholders or Couponholders, to any modification (subject to certain exceptions) of, or to the waiver or authorisation of any breach or proposed breach of, any of these Terms and Conditions or any of the provisions of the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or to any modification which is of a formal or minor or technical nature or is made to correct a manifest error. The Trustee may also agree without consent as aforesaid, subject to the Bonds and the Coupons carrying the irrevocable and unconditional guarantee of the Issuer, to the substitution of a subsidiary of the Issuer in place of the Issuer as principal debtor under the Trust Deed, the Bonds and the Coupons, any such substitution as aforesaid being subject to such other amendments to the Trust Deed and such other conditions as the Trustee may require.

In connection with any proposed substitution as aforesaid the Trustee shall not have regard to the tax consequences of such substitution for individual Bondholders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim from the Issuer, any indemnification or payment in respect of any tax consequence of any such substitution upon individual Bondholders or Couponholders except to the extent already provided for in Condition 6 (or in any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed).

Any such modification, waiver, authorisation or substitution shall be binding on the Bondholders and Couponholders and, unless the Trustee agrees otherwise, any such modification or substitution shall be notified to the Bondholders as soon as practicable thereafter in accordance with Condition 11.

13. INDEMNIFICATION OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment unless indemnified to its satisfaction.

14. FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Bondholders or the Couponholders to create and issue further bonds or notes either so as to form a single series with the outstanding bonds or notes of any series (including the Bonds) or upon such terms as to interest, conversion, premium, redemption and otherwise as the Issuer may at the time of issue thereof determine. Any such bonds or notes, if they are to form a single series with the Bonds or the bonds or notes of any other series constituted

by a deed supplemental to the Trust Deed, shall be constituted by a deed supplemental to the Trust Deed and in any other case, if the Trustee so agrees, any such bonds or notes may be so constituted. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of bonds or notes of other series for the purpose of passing an Extraordinary Resolution in certain circumstances where the Trustee decides that the resolution in question does not give rise to a conflict of interest between the holders of the bonds or notes of the relevant series.

15. GOVERNING LAW

The Trust Deed, the Bonds and the Coupons are governed by, and will be construed in accordance with, English law.

USE OF PROCEEDS

The net proceeds from the issue of the Bonds, which are expected to amount to approximately £294,795,000, will be used for the general corporate purposes of the Group.

BRITISH TELECOMMUNICATIONS public limited company

INCORPORATION AND BUSINESS

The Company was incorporated under the laws of England and Wales on 1st April, 1984 as a public limited company wholly owned by HM Government. In December 1984, HM Government sold just over 50 per cent. of the then issued Ordinary Shares to the public in an international offering and, in December 1991, sold a further 25.6 per cent. of the Ordinary Shares. In July 1993, HM Government sold interim rights to substantially all of its remaining holding of BT shares and now owns approximately 1 per cent. of BT's issued share capital.

BT is one of the world's leading providers of telecommunication services. BT's main services and products are local and long-distance telephone calls in the United Kingdom, the provision of telephone exchange lines to homes and businesses, international telephone calls made from and to the United Kingdom and the supply of telecommunication equipment for customers' premises. BT also offers a range of other products and services, including private circuits and mobile communication services and products. The Company owns 60 per cent. of Cellnet, one of the major United Kingdom mobile telephone network operators. In the year ended 31st March, 1994, 98 per cent. of BT's total revenues arose from operations in the United Kingdom. The main business activities of the Group are carried out within the Company.

BT is encouraging increased use of its network and is taking action to control its operating expenses, albeit with significant short-term costs resulting from work force reductions, while seeking to maintain quality of services to its customers. BT is aiming to reduce the numbers employed by about 15,000 in the current financial year ending 31st March, 1995 with total redundancy costs estimated at around £750 million. Major investment in the network continues and BT is using its knowledge of advanced technology to improve existing services and to develop new services, including mobile communication services and managed network services for multinational business customers.

BT operates in the United Kingdom in an environment of extensive regulation and growing competition. BT is subject to controls on the prices it may charge for services which generate the majority of its revenues. An important factor in the impact on BT of the United Kingdom regulatory system is how the Director General of Telecommunications and the Secretary of State exercise their powers, many of which allow considerable discretion.

Revised price control arrangements came into effect on 1st August, 1993 and are expected to remain in force until 31st July, 1997. These require an aggregate annual adjustment in the prices of BT's main services by 7.5 percentage points below the percentage change in the United Kingdom retail prices index. In the current price control year, further price cuts of around 5 per cent. on about 60 per cent. of the Group's total turnover are required by this formula, to be weighted as if implemented on 1st November, 1994.

HM Government's policy is to promote competition by granting licences to provide fixed-link services in the United Kingdom, and by restricting BT's participation in certain markets including mobile telephony and cable television services. The Director General published a statement in March 1994 on interconnection and accounting separation. BT has agreed to work with the Director General on the implementation of his proposals, but has reserved the right to reject detailed Licence amendments which it finds unacceptable.

BT currently faces increasing competition in all major areas of its business. Competition has already resulted in some erosion of BT's market share, including in some of its more profitable markets, and is expected to increase as existing competitors develop their businesses and additional competitors enter the market. BT expects the future effect of competition to be a further erosion of its market share.

As BT expands its interests and activities outside the United Kingdom, regulatory environments elsewhere in the world are becoming an increasingly important feature of its operating environment.

BT is seeking to develop its business outside the United Kingdom, including through possible acquisitions, joint ventures and other alliances, within the regulatory constraints of the countries concerned. BT has entered into agreements, subject to final regulatory approvals, to implement a strategic alliance with MCI Communications Corporation ("MCI"), the second largest carrier of long-distance telecommunication services in the United States. This involved the creation of a joint venture company to offer enhanced voice and data services internationally and the investment by BT of approximately U.S.\$4.3 billion (£2.8 billion) of which U.S.\$830 million (£544 million) was invested in June 1993, to acquire a 20 per cent. interest in MCI. The balance of the U.S.\$4.3 billion for the remainder of the 20 per cent. holding will be paid at the completion of the transaction, which is expected to be later in 1994.

In November 1992, BT announced a provisional agreement to sell its shareholding in McCaw Cellular Communications, Inc. ("McCaw") to AT&T Corporation ("AT&T"). It was subsequently announced in August 1993 that AT&T and McCaw had agreed to merge and that BT had agreed with AT&T to rearrange the sale. Under the terms of the merger agreement, which is subject to certain regulatory approvals, BT will receive shares in AT&T for its 17 per cent. shareholding in McCaw when the merger is completed. BT does not expect to be a long-term holder of the AT&T shares.

The Company has announced its intention to set up a U.S.\$1.5 billion Euro-commercial paper programme.

BOARD OF DIRECTORS

Sir Iain Vallance	Chairman and the non-executive Vice-Chairman of The Royal Bank of Scotland Group plc.
Paul Graham Bosonnet	Non-executive Deputy Chairman and the non-executive Chairman of Logica plc and a non-executive Director of Lucas Industries plc and Mercury Asset Management Group plc, a subsidiary of S.G.Warburg Group plc.
Michael Leslie Hepher	Group Managing Director.
Robert Paul Brace	Group Finance Director.
Dr. Alan Walter Rudge OBE FRS	Managing Director, Development and Procurement.
Malcolm Argent CBE	A non-executive Director and a non-executive Director of Westminster Health Care Holdings PLC and Clerical, Medical and General Life Assurance Society.
Michael Bett CBE	A non-executive Director and a non-executive Director of Compel Group PLC.
Sir Ewen Fergusson GCMG GCVO	A non-executive Director and the non-executive Chairman of Coutts & Co and a non-executive Director of Sun Alliance Group plc and The Savoy Hotel PLC.
Yve Monica Newbold	A non-executive Director, the Company Secretary of Hanson PLC and a non-executive Director of Coutts & Co.
John Keith Oates	A non-executive Director and the Deputy Chairman and Managing Director of Marks and Spencer p.l.c.
Sir David Scholey CBE	A non-executive Director and the Chairman of S.G.Warburg Group plc, and a non-executive Director of the Bank of England, the Chubb Corporation and the General Electric Company p.l.c., and a Governor of the BBC.
The Rt. Hon. Lord Tebbit CH	A non-executive Director and a non-executive Director of BET PLC and Sears plc.

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

CAPITALISATION AND OTHER FINANCIAL INFORMATION OF THE GROUP

Set out below are tables showing in summary:

- (a) the unaudited consolidated shareholders' funds and borrowings of the Group ("Group Capitalisation") as at 30th June, 1994, adjusted to reflect the following:
- (i) the conversion on 15th July, 1994 of six series of HM Government held bonds with original face values of £960 million into series of bonds with new face values of £1,078 million and lower coupons;
 - (ii) the subsequent repurchase by the Company, with settlement due on 23rd August, 1994, of three series of these bonds with a new face value of £540 million ;
 - (iii) the adjustment to the shareholders' funds for the effective premium of £75 million to the original face values of the three series of the bonds converted and repurchased, which is to be written off against the Group's results for the three months ending 30th September, 1994. (The increase in the face value of £58 million on the three series of bonds that were converted but not repurchased is to be amortised over the life of those bonds);
 - (iv) the issue of U.S.\$375 million 6½ per cent. Guaranteed Notes 1997 on 22nd August, 1994; and
 - (v) the Bonds now being issued.
- (b) the audited results of the Group for the years ended 31st March, 1993 and 31st March, 1994 and the unaudited results of the Group for the three month periods ended 30th June, 1993 and 30th June, 1994; and
- (c) the financial position of the Group as at those dates.

GROUP CAPITALISATION

	As at 30th June, 1994 (unaudited)
	<u>(in £ millions)</u>
Capital and reserves	
Authorised share capital (10,500 million Ordinary Shares of 25 pence each) (Note 2)	2,625
Called up share capital (fully paid) (6,226 million Ordinary Shares) (Note 2)	1,556
Reserves	11,901
Total	13,457
Borrowings	
HM Government held bonds (£798 million less unamortised increase in face value on conversion) (Note 3)	740
9½ per cent. Guaranteed Debentures 2019	128
12¼ per cent. Bonds 2006	229
12¼ per cent. Bonds 2003	180
7½ per cent. Bonds 2003	495
Zero Coupon Bonds 2000 (£200 million less unamortised discount on issue)	106
9½ per cent. Guaranteed Notes 1999	194
8¼ per cent. Guaranteed Bonds 1999	129
9½ per cent. Guaranteed Bonds 1998	162
7½ per cent. Guaranteed Bonds 1996	162
8½ per cent. Guaranteed Bonds 1995	130
10½ per cent. Guaranteed Notes 1995	78
7½ per cent. Guaranteed Notes 1995	97
8¾ per cent. Guaranteed Bonds 1994	97
8½ per cent. Guaranteed Notes 1994	117
6½ per cent. Guaranteed Notes 1997 (to be issued on 22nd August, 1994 — at nominal value) (Note 4)	242
8½ per cent. Bonds 2020 (now being issued — at nominal value)	300
Bank loans and overdrafts	623
Other borrowings	74
Total (Notes 5 and 6)	4,283

Save as disclosed on this page, since 30th June, 1994 there has been no material change in the total capitalisation of the Group and no material changes in the total borrowings of the Group.

GROUP RESULTS

	Year ended		Three months ended	
	31st March, 1994	1993	30th June, (unaudited) 1994	1993
	<i>(in £ millions)</i>			
Turnover	13,675	13,242	3,382	3,335
Operating costs.. .. .	10,660	10,806	2,541	2,525
Operating profit	3,015	2,436	841	810
Group's share of profits of associated undertakings	18	13	3	3
Loss on sale of Group undertakings	(14)	(132)	—	—
Profit before employee share ownership scheme and interest	3,019	2,317	844	813
Employee share ownership scheme	33	33	—	—
Interest receivable	(159)	(251)	(37)	(38)
Premium on repurchase of bonds	—	56	—	—
Interest payable.. .. .	389	507	100	94
Profit on ordinary activities before taxation	2,756	1,972	781	757
Taxation	951	724	270	261
Profit on ordinary activities after taxation	1,805	1,248	511	496
Minority interests	38	28	7	8
Profit attributable to shareholders	1,767	1,220	504	488

GROUP FINANCIAL POSITION

	As at 31st March,		As at 30th June,	
	1994	1993	1994	1993
	<i>(in £ millions)</i>			
Fixed assets				
Tangible assets	15,584	15,736	15,603	15,660
Investments	1,312	735	1,280	1,299
	16,896	16,471	16,883	16,959
Current assets				
Stocks (<i>Note 1</i>)	216	216	250	217
Debtors (<i>Note 1</i>)	2,680	2,581	2,760	2,638
Investments	2,713	1,915	3,406	1,970
Cash at bank and in hand	60	51	29	46
	5,669	4,763	6,445	4,871
Creditors: amounts falling due within one year				
Loans and other borrowings	800	342	748	362
Other creditors	4,744	4,099	4,673	4,070
	5,544	4,441	5,421	4,432
Net current assets	125	322	1,024	439
Total assets less current liabilities	17,021	16,793	17,907	17,398
Loans and borrowings falling due after more than one year	(3,199)	(3,386)	(3,473)	(3,384)
Provisions for liabilities and charges	(701)	(1,117)	(789)	(1,179)
Minority interests in subsidiary companies	(95)	(72)	(113)	(80)
	13,026	12,218	13,532	12,755
Shareholders' funds	13,026	12,218	13,532	12,755

Notes:

- (1) *The information set out in the above tables has been prepared on the basis of the accounting policies used for the Group's audited annual Report and Accounts for the year ended 31st March, 1994. Figures for the year ended 31st March, 1994 are extracts from the Group accounts for that year with the exception of those for stocks and debtors which have been restated due to a reclassification.*
- (2) *Includes one special rights redeemable preference share of £1 held by HM Government.*
- (3) *The HM Government bonds were modified in 1992 and, as explained above, again in July 1994 from the unsecured loan stock previously in issue. The bonds are repayable at par on dates between 1995 and 2004 and carry interest at rates between 8¼ per cent. and 12½ per cent. They were originally issued to the Secretary of State in 1984 as a replacement for HM Government loans extinguished at that time.*
- (4) *The notes to be issued on 22nd August, 1994 have been translated into sterling at the exchange rate ruling on 12th August, 1994.*
- (5) *Includes £16 million secured on assets of the Group.*
- (6) *Includes £748 million repayable within one year.*

INVESTMENT IN MCI

Following the completion of the MCI transaction, BT's investment in MCI will be accounted for under the equity method.

If BT's proposed 20 per cent. investment in MCI had occurred on 31st March, 1994, BT's net debt (borrowings net of cash at bank and in hand and short-term investments) as at that date would have increased to approximately £3,600 million compared to an actual amount of £1,226 million. The proposed investment would also have had the effect of reducing BT's ordinary shareholders' equity by approximately £2,000 million, being the amount of goodwill arising on the investment, based on MCI's balance sheet as at 31st December, 1993 and after making appropriate adjustments, estimated in certain cases, to conform it with BT's accounting policies under accounting principles generally accepted in the UK.

UNITED KINGDOM TAXATION

The following summary of certain United Kingdom tax implications of the holding and disposal of the Bonds is based on the Issuer's understanding of current United Kingdom law and practice. They relate only to the position of persons who are the absolute beneficial owner of their Bonds and the related Coupons. It is not an exhaustive summary and, in particular, does not deal with the position of certain classes of taxpayer, such as dealers.

1. So long as the Bonds are quoted on a recognised stock exchange, payments of interest may be made without withholding or deduction for or on account of United Kingdom income tax where:—
 - (a) the person by or through whom the payment is made is not in the United Kingdom. In accordance with current Inland Revenue practice, no withholding or deduction for or on account of United Kingdom income tax is required where the payment of interest is made by an overseas paying agent, notwithstanding that the payer is resident in the United Kingdom and may appoint a principal paying agent in the United Kingdom; or
 - (b) the person by or through whom the payment is made is in the United Kingdom but
 - (i) the Bonds are held in a recognised clearing system (which includes Euroclear and Cedel); or
 - (ii) it is proved, on a claim in that behalf made to the Inland Revenue, that the person who is the beneficial owner of the Bonds and related Coupons (or the person whose income the interest is for United Kingdom tax purposes deemed to be) is not resident in the United Kingdom. Under current Inland Revenue practice, an appropriate form of declaration of non-residence provided to the paying agent is sufficient proof.

In all other cases, interest will have to be paid under deduction of United Kingdom income tax at the basic rate (currently 25 per cent.) subject to any direction to the contrary from the Inland Revenue under the provisions of an applicable double taxation agreement.

2. A United Kingdom collecting agent obtaining payment of interest on behalf of a holder of the Bonds, where either the payment of that interest was not made by or entrusted to any person in the United Kingdom or the relative Bonds are held in a recognised clearing system, or a United Kingdom banker selling a Coupon on behalf of a holder of the Bonds or a United Kingdom dealer in coupons buying a Coupon other than from a banker or another dealer will be required to deduct United Kingdom income tax at the basic rate unless it is proved, on a claim in that behalf made in advance to the Inland Revenue, that the person who is the beneficial owner of the Bonds and related Coupons is not resident in the United Kingdom and the interest is not deemed to be the income of any other person for United Kingdom tax purposes.

3. Interest on the Bonds will constitute United Kingdom source income for United Kingdom tax purposes and, as such, will remain subject to United Kingdom tax on income by direct assessment even if the interest is paid without withholding or deduction (except in the hands of a holder of Bonds who is exempt from United Kingdom tax under the terms of an applicable double taxation agreement). However, under long-standing Inland Revenue practice (published as an extra-statutory concession), the interest will not be assessed to United Kingdom tax in the hands of the holders of Bonds who are resident outside the United Kingdom throughout the relevant tax year, except where such persons:—

- (a) are chargeable in the name of a trustee or other representative of an incapacitated person or in the name of an agent or branch in the United Kingdom having the management or control of the interest; or
- (b) seek to claim relief in respect of taxed income from United Kingdom sources; or
- (c) are chargeable to corporation tax on the income of a United Kingdom branch or agency to which the interest is attributable; or
- (d) are chargeable to income tax on the profits of a trade carried on in the United Kingdom to which the interest is attributable.

4. Where interest has been paid under deduction of United Kingdom income tax, holders of Bonds who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double tax agreement.

5. The holders of the Bonds should note that the provisions relating to the payment of additional amounts referred to under "Taxation" in "Terms and Conditions of the Bonds" above would not apply if the Inland Revenue sought to assess the person entitled to the relevant interest directly to United Kingdom

tax on income. However, exemption from or reduction of such United Kingdom tax liability might be available under an appropriate double taxation agreement.

6. The provisions of the accrued income scheme (the "Scheme") may apply to persons transferring Bonds and to persons to whom such Bonds are transferred. On a transfer of securities with accrued interest the Scheme usually applies to deem the transferor to receive an amount of income equal to the accrued interest and to deem the transferee to obtain an equivalent credit to set against the deemed or actual interest he subsequently receives. Holders should note, however, that the provisions of the Scheme do not generally apply to dealers in securities, exempt approved schemes and charities or to persons who:—

(i) are neither resident nor ordinarily resident in the United Kingdom; and

(ii) do not carry on a trade in the United Kingdom through a branch or agency to which the Bonds are attributable.

7. The Bonds will constitute qualifying corporate bonds for the purposes of Section 117 of the Taxation of Chargeable Gains Act 1992. As a result, the disposal of a Bond will generally not give rise to a chargeable gain or an allowable loss for the purposes of the United Kingdom taxation of capital gains.

8. No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Bonds or on their transfer by delivery.

Prospective holders of the Bonds who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek independent advice.

SUBSCRIPTION AND SALE

Lehman Brothers International (Europe), S.G. Warburg Securities Ltd., Barclays de Zoete Wedd Limited, CS First Boston Limited, Samuel Montagu & Co. Limited, NatWest Capital Markets Limited (as agent for National Westminster Bank Plc) and Cazenove & Co. (the "Managers") have, pursuant to a Subscription Agreement dated 16th August, 1994, jointly and severally agreed to subscribe or procure subscribers for the Bonds at the issue price of 100.765 per cent. of their principal amount, for a selling commission of 1.875 per cent. of such principal amount. The Issuer will pay to the Managers a combined management and underwriting commission of 0.625 per cent. of such principal amount and will also reimburse the Managers in respect of certain of their expenses. The Subscription Agreement may be terminated in certain circumstances prior to payment to the Issuer.

SELLING RESTRICTIONS

UNITED STATES OF AMERICA

The Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Bonds are subject to US tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a US person, except in certain transactions permitted by US tax regulations. Terms used in this paragraph have the meaning given to them by the US Internal Revenue Code and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Bonds (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, US persons, and it will have sent to each dealer to which it sells Bonds during the restricted period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, US persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Bonds within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

UNITED KINGDOM

Each of the Managers has represented and agreed that:—

- (i) prior to application for listing of the Bonds being made in accordance with Part IV of the Financial Services Act 1986 (the "Act") it did not offer or sell in the United Kingdom, or elsewhere, by means of any document, any Bonds other than in circumstances which did not constitute an offer to the public within the meaning of the Companies Act 1985;
- (ii) it has complied and will comply with all applicable provisions of the Act with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom;
- (iii) 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 Bonds, 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 9(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1988 or is a person to whom the document may otherwise lawfully be issued or passed on; and
- (iv) if it is not an authorised person within the meaning of the Act, it is not carrying on investment business in the United Kingdom in contravention of section 3 of such Act.

GENERAL INFORMATION

1. The issue of the Bonds was authorised pursuant to a resolution of the Board of Directors of the Issuer passed on 26th April, 1994.
2. The listing of the Bonds on the London Stock Exchange will be expressed as a percentage of their principal amount (exclusive of accrued interest). It is expected that listing of the Bonds on the London Stock Exchange will be granted on 19th August, 1994, subject only to the issue of the Global Bond. Prior to listing, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in sterling and for delivery on the seventh calendar day after the date of the transaction.
3. The Bonds have been accepted for clearance through Cedel and Euroclear. The ISIN for this issue is XS0052067583 and the Common Code is 5206758.
4. The financial information contained in this document does not constitute full accounts within the meaning of the Companies Act 1985 for any one year or other period. For each of the years ended 31st March, 1992, 1993 and 1994, respectively, full Group accounts have been made up and unqualified reports thereon made by the auditors of the Issuer and copies thereof delivered to the Registrar of Companies.
5. Save as disclosed herein, there has been no significant change in the financial or trading position of the Issuer or the Group and no material adverse change in the financial position or prospects of the Issuer or the Group since 31st March, 1994.
6. Neither the Issuer nor any of its subsidiaries is involved in any litigation or arbitration proceedings which may have, or have had during the previous 12 months, a significant effect upon the financial position of the Group nor, so far as the Issuer is aware, are any such litigation or arbitration proceedings pending or threatened.
7. Sir David Scholey, a non-executive Director of the Issuer, is Chairman of S.G. Warburg Group plc, the ultimate parent company of S.G. Warburg Securities Ltd.
8. The following legend will appear on all Bonds and Coupons: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code". Under these limitations, if a Bond or Coupon is paid, sold or otherwise disposed of in a transaction that results in a taxable gain or a loss for United States Federal income tax purposes, the gain will be treated as ordinary income and not as capital gain, and no deduction will be allowable in respect of the loss.
9. Accounts of the Company for each of the three years ended 31st March, 1992, 1993 and 1994 have been audited by Coopers & Lybrand, Chartered Accountants and Registered Auditors, 1 Embankment Place, London WC2N 6NN.
10. Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays and public holidays excepted) at the offices of Linklaters & Paines, Barrington House, 59-67 Gresham Street, London EC2V 7JA for 14 days after the date hereof:—
 - (a) the Memorandum and Articles of Association of the Issuer;
 - (b) the Annual Report and Accounts of the Group for each of the years ended 31st March, 1993 and 31st March, 1994 and the unaudited financial results releases of the Group for the three months ended 30th June, 1993 and 30th June, 1994;
 - (c) the Subscription Agreement; and
 - (d) drafts, subject to modification, of the Trust Deed (including the forms of the Bonds and the Coupons) and the Agency Agreement.

REGISTERED OFFICE OF THE COMPANY

81 Newgate Street,
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AUDITORS OF THE COMPANY

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Chartered Accountants and Registered Auditors,
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London WC2N 6NN

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To the Managers and the Trustee

Allen & Overy
9 Cheapside,
London EC2V 6AD

LISTING AGENT

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