BT GROUP PLC
Form 6-K
April 01, 2015
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act 1934

Report on Form 6-K dated April 1, 2015

BT Group plc

(Translation of registrant s name into English)

BT Centre

81 Newgate Street

London EC1A 7AJ

England

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F x Form 40-F ¨

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ¨ No x

Enclosure: Circular to Shareholders and Notice of General Meeting

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BT Group plc

By: /s/ Tony Chanmugam

Name: Tony Chanmugam
Title: Group Finance Director

Date: April 1, 2015

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THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or the action you should take, you are recommended to seek your own financial advice as soon as possible from your stockbroker, bank, solicitor, accountant, fund manager or other appropriate independent financial adviser, who is authorised under the FSMA, if you are resident in the United Kingdom or, if not, from another appropriately authorised independent professional adviser.

If you sell or transfer or have sold or transferred all of your Ordinary Shares, please send this Circular and any accompanying documents as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee. If you have sold part of your holding of Ordinary Shares please retain this Circular and the accompanying Form of Proxy and contact immediately the bank, stockbroker or other agent through whom the sale or transfer was effected.

This Circular is not a prospectus and it does not constitute or form part of any offer or invitation to purchase, acquire, subscribe for, sell, dispose of or issue, or any solicitation of any offer to sell, dispose of, purchase, acquire or subscribe for, any security, including any Consideration Shares to be issued in connection with the proposed Acquisition.

BT Group plc

(Incorporated in England & Wales with registered no. 4190816)

Proposed acquisition of EE Limited

Circular to Shareholders

and

Notice of General Meeting

Your attention is drawn to the letter from the Chairman of the Company which is set out in Part I (*Letter from the Chairman of BT Group plc)* and which contains the unanimous recommendation of the Directors that you vote in favour of the Resolutions to be proposed at the General Meeting referred to below. You should read the whole of this Circular and, in particular, the risk factors in Part II (*Risk Factors*).

Notice of a General Meeting of the Company to be held at Old Billingsgate, 1 Old Billingsgate Walk, London, EC3R 6DX on Thursday 30 April 2015 at 10.00 a.m. is set out at the end of the Circular. A Form of Proxy for use at the General Meeting is enclosed. To be valid, a Form of Proxy should be completed, signed and returned in accordance with the instructions printed on it so as to be received by the Company s registrars, Equiniti, at the address detailed on the Form of Proxy, as soon as possible and in any event, no later than 10.00 a.m. on Tuesday 28 April 2015 (or in the case of an adjournment, not later than 48 hours before the time fixed for the holding of the adjourned meeting). In order for holders of ADRs to vote upon the Resolutions, a completed ADR Voting Instruction Form must be returned to the Depositary so as to be received no later than 12.00 p.m. New York City time on Tuesday 28 April 2015.

As an alternative to completing and returning the printed Form of Proxy, Shareholders can also submit their proxy electronically at **www.sharevote.co.uk** To be valid, the electronic submission must be received by not later than 10.00 a.m. on Tuesday 28 April 2015 (or, in the case of any adjournment, not later than 48 hours before the time fixed for the holding of the adjourned meeting).

CREST members may also choose to utilise the CREST electronic proxy appointment service in accordance with the procedures set out in the Notice of General Meeting at the end of the Circular, as soon as possible and in any event no later than 10.00 a.m. on Tuesday 28 April 2015 (or in the case of an adjournment, not later than 48 hours before the time fixed for the holding of the adjourned meeting).

Completion and return of a Form of Proxy, submitting your vote electronically or as a CREST Proxy Instruction will not preclude you from attending and voting in person at the General Meeting, should you so wish.

Goldman Sachs International which is authorised by the PRA and regulated by the FCA and the PRA in the United Kingdom is acting exclusively for BT as lead financial adviser in relation to the Acquisition. J.P. Morgan Limited (which conducts its UK investment banking activities as J.P. Morgan Cazenove) is authorised and regulated in the United Kingdom by the FCA and is acting exclusively for BT as financial adviser in relation to the Acquisition and sponsor in relation to the Acquisition and the buy-back of Ordinary Shares pursuant to the DT CP Contract. Perella Weinberg, which is authorised and regulated in the United Kingdom by the FCA, is acting exclusively for BT as financial adviser in relation to the Acquisition.

Each of Goldman Sachs International, J.P. Morgan Cazenove and Perella Weinberg are acting exclusively for the Company and no one else in connection with the Acquisition (and, in the case of J.P. Morgan Cazenove, in connection with the buy-back of Ordinary Shares pursuant to the DT CP Contract) and will not regard any other person (whether or not a recipient of this Circular) as a client in relation to the Acquisition (and, in the case of J.P. Morgan Cazenove, in connection with the buy-back of Ordinary Shares pursuant to the DT CP Contract) and will not be responsible to anyone other than the Company for providing the protections afforded to clients of Goldman Sachs International, J.P. Morgan Cazenove or Perella Weinberg or for providing advice in relation to the Acquisition, the buy-back of Ordinary Shares pursuant to the DT CP Contract, the contents of this Circular, or any other matters referred to in this Circular.

Aside from the responsibilities and liabilities, if any, which may be imposed under the FSMA or the regulatory regime established thereunder, or any other applicable regulatory regime, none of Goldman Sachs International, J.P. Morgan Cazenove, Perella Weinberg or any of their respective affiliates accept any responsibility or liability whatsoever for, nor make any representation or warranty, express or implied, as to the contents of this Circular, including its accuracy, fairness, completeness or verification, or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Acquisition, the buy-back of Ordinary Shares pursuant to the DT CP Contract, the Ordinary Shares or the Consideration Shares and nothing in this Circular is, or shall be relied upon as, a promise or representation in this respect, whether as to the past or future. Each of Goldman Sachs International, J.P. Morgan Cazenove and Perella Weinberg and their respective affiliates accordingly disclaims to the fullest extent permitted by law all and any responsibility or liability whether arising in tort, contract or otherwise (save as referred to above) which it might otherwise have in respect of this Circular or any such statement.

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Notice to all investors

This Circular is not intended to and does not constitute or form part of any offer or invitation to purchase or subscribe for, or any solicitation to purchase or subscribe for, Ordinary Shares, including the Consideration Shares in any jurisdiction. The information provided in this Circular is provided solely for the purpose of considering the Resolutions. Any reproduction or distribution of this Circular, in whole or in part, and any disclosure of its contents or use of any information contained in this Circular for any purpose other than considering the Resolutions is prohibited.

No person has been authorised to give any information or make any representations other than those contained in this Circular or incorporated by reference herein and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Company, Goldman Sachs International, J.P. Morgan Cazenove or Perella Weinberg. None of the above take any responsibility or liability for, and can provide no assurance as to the reliability of, other information that you may be given. Subject to the Listing Rules, the Prospectus Rules and the Disclosure and Transparency Rules, the delivery of this Circular shall not, under any circumstances, create any implication that there has been no change in the affairs of BT or EE since the date of this Circular or that the information in this Circular is correct as at any time after its date.

The contents of this Circular are not to be construed as legal, business or tax advice. Each Shareholder should consult their own legal adviser, financial adviser or tax adviser for legal, financial or tax advice respectively.

Notice to overseas shareholders

This Circular is not an offer of securities for sale in the United States and there will be no public offer of securities in the United States. The securities discussed herein have not been and will not be registered under the US Securities Act of 1933, as amended, and may not be offered or sold directly or indirectly within the United States except pursuant to an exemption from, or in a transaction not subject to, such registration requirements and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. Neither the Securities Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this Circular. Any representation to the contrary is a criminal offence in the United States. Distribution of this document by any recipient may be restricted or prohibited by US law. Recipients are required to inform themselves of, and comply with, all such restrictions or prohibitions.

Information regarding forward-looking statements

This Circular contains (or may contain) statements that are, or may be deemed to be, forward-looking statements , including within the meaning of Section 27A of the Securities Act and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. Forward-looking statements are based on current expectations and projections about future events and other matters that are not historical fact. These forward-looking statements are sometimes identified by the use of a date in the future or forward-looking terminology, including, but not limited to, the words aim , anticipate , believe , intend , plan , estimate , expect , may , target could or should or, in each case, their negative or other variations or words of similar meaning. These forward-looking statements include matters that are not historical facts and include statements that reflect the Directors intentions, beliefs and current expectations. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future or are beyond BT s control. They are not guarantees of future performance and are based on one or more assumptions.

Forward-looking statements appear in a number of places throughout this Circular and include statements regarding the intentions, beliefs or current expectations of BT concerning, without limitation: current and future years outlook; revenue and revenue trends; EBITDA; free cash flow and operating free cash flow; capital expenditure; shareholder returns including progressive dividends; net debt; credit ratings; investment in and rollout of BT s fibre network, and its reach, innovations, increased speeds and speed availability; BT s broadband-based service and strategy; BT s investment in TV; growth opportunities in networked IT services; the pay-TV services market, broadband, and mobility and future voice; enhancing BT s TV service; growth of, and opportunities available in, the communications industry and BT s positioning to take advantage of those opportunities; expectations regarding competition, market shares, prices and growth; expectations regarding the convergence of technologies; plans for the launch of new products and services; network performance and quality; the impact of regulatory initiatives, decisions and outcomes on operations; BT s possible or assumed future results of operations and/or those of its associates and joint ventures; investment plans; financing plans and refinancing requirements; demand for and access to broadband and the promotion of broadband by third-party service providers; anticipated financial and other benefits and synergies resulting from the Acquisition, including revenue, operating cost and capital expenditure synergies; and BT s plans and objectives following the Acquisition.

Statements contained in this Circular regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Any forward-looking statements in this Circular reflect BT s view with respect to future events as at the date of this Circular and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the conditions to the Acquisition being satisfied, including regulatory approval of the Acquisition, increased leverage as a result of the Acquisition, BT s ability to integrate the businesses and retention of key personnel, the successful realisation of the anticipated synergies and strategic benefits and an adequate return on its investment from the Acquisition, consumer behaviour, the increased regulatory burden facing the Enlarged Group, maintenance of EE s performance and momentum in its business during the period prior to Acquisition and throughout integration and BT s operations, result of operations, financial condition, growth, strategy, liquidity and the industry in which BT operates, and the other risk factors highlighted in this Circular. No assurances can be given that the forward-looking statements in this Circular will be realised. BT s actual performance, results of operations, internal rate of return, financial condition, distributions to shareholders, the development of its financing strategies and the results or eventual success of the Acquisition may differ materially from the impression created by the forward-looking statements contained in this Circular. In addition, even if BT s actual performance, results of operations, internal rate of return, financial condition, distributions to shareholders, the development of its financing strategies and the results or eventual success of the Acquisition are consistent with the forward-looking statements contained in this Circular, those results, developments or other aforementioned matters may not be indicative of results or developments in subsequent periods.

Forward-looking statements contained in this Circular apply only as at the date of this Circular. Subject to any obligations under the Listing Rules and the Disclosure and Transparency Rules or any other applicable law or regulation, BT undertakes no obligation publicly to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

To the extent that any document or information incorporated by reference or attached to this Circular, itself incorporates any information by reference, either expressly or impliedly, such information will not form part of this Circular, except where such information or documents are stated within this Circular as specifically being incorporated by reference or where this Circular is specifically defined as including such information. Capitalised terms have the meanings ascribed to them in Part VIII (*Definitions*).

The contents of BT s websites, the websites of EE, or any website directly or indirectly linked to any of those websites do not form part of this Circular and should not be relied upon, without prejudice to the documents incorporated by reference into this Circular.

This Circular is dated 1 April 2015.

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EXPECTED TIMETABLE OF PRINCIPAL EVENTS

The times and dates in the table below and elsewhere in this Circular are given on the basis of the Directors current expectations and are subject to change. All references to time in this Circular are to London time.

Announcement of Acquisition	5 February 2015
Latest time and date for receipt of ADR Voting Instruction Forms	12.00 p.m. (New York City time) on 28 April 2015
Latest time and date for receipt of Forms of Proxy	10.00 a.m. on 28 April 2015
General Meeting	10.00 a.m. on 30 April 2015
Completion of the Acquisition and admission of the Consideration Shares	Expected before the end of the Company s 2015/16 financial year (31 March 2016)
Longstop date for Completion of the Acquisition	5 August 2016

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DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Sir Michael Rake	*Chairman*
	Gavin Patterson	*Chief Executive*
	Tony Chanmugam	*Group Finance Director*
	Tony Ball	*Non-Executive Director*
	Iain Conn	*Non-Executive Director*
	Warren East	*Non-Executive Director*
	Phil Hodkinson	*Non-Executive Director*
	Isabel Hudson	*Non-Executive Director*
	Karen Richardson	*Non-Executive Director*
	Nick Rose	*Non-Executive Director*
	Jasmine Whitbread	*Non-Executive Director*
Company Secretary	Dan Fitz	
Registered office	81 Newgate Street London EC1A 7AJ	
Sponsor	J.P. Morgan Limited 25 Bank Street Canary Wharf London E14 5JP	
Financial advisers	Goldman Sachs International Peterborough Court 133 Fleet Street London EC4A 2BB	
	J.P. Morgan Limited 25 Bank Street Canary Wharf London E14 5JP	
	Perella Weinberg Partners UK LLP 20 Grafton Street London W1S 4DZ	

Legal advisers to the Company	Freshfields Bruckhaus Deringer LLP 65 Fleet Street London EC4Y 1HS
Legal advisers to the Sponsor	Simmons & Simmons LLP CityPoint One Ropemaker Street London EC2Y 9SS
Reporting accountants and auditors	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
Registrars	Equiniti Aspect House Spencer Road Lancing West Sussex BN99 6DA

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GENERAL INFORMATION

Presentation of financial information

Unless otherwise stated:

(a) financial information relating to BT has been extracted without material adjustment from the audited consolidated financial statements of the Company or from the unaudited consolidated interim financial statements of the Company;

(b) financial information relating to EE, unless otherwise stated, has been extracted without material adjustment from the Historical Financial Information set out in Part V (*Historical Financial Information relating to EE*) of this document and the audited financial statements of EE for the year ended 31 December 2014; and

(c) all prices quoted for Ordinary Shares are closing prices in Pounds Sterling as provided by the London Stock Exchange.

Unless otherwise indicated, financial information in this Circular relating to the Company and EE has been prepared in accordance with IFRS and in accordance with the accounting policies adopted by BT in preparing its financial statements for the year ended 31 March 2014.

Roundings

Certain data in the Circular, including financial, statistical and operating information, have been rounded. As a result of rounding, the totals of data presented in this Circular may vary slightly from the actual arithmetic totals of such data. Percentages have also been rounded and accordingly may not add up to 100 per cent.

Non-IFRS financial measures

Adjusted EBITDA of BT

BT Adjusted EBITDA is defined as the group profit before depreciation, amortisation, net finance expense, taxation and specific items. Specific items are those items that in management s judgement need to be separately disclosed by virtue of their size, nature or incidence. Adjusted EBITDA and specific items are non-GAAP measures and therefore may not be directly comparable with similarly titled measures used by other companies.

Adjusted EBITDA of EE

Adjusted EBITDA is defined by EE as the EE Group s net profit (loss) before interest, tax, depreciation and amortisation and share of profits (losses) of associates and joint ventures, and is before management and brand fees payable to its shareholders and restructuring and exceptional expenses. BT notes that this is a different definition to that used by BT for its Adjusted EBITDA measure.

Profit Forecasts

BT s results for the third quarter and nine months to 31 December 2014 contained a profit estimate for the year ended 31 March 2015 and a profit forecast for the year ending 31 March 2016 as defined by the Listing Rules. Further detail on this profit estimate and profit forecast is set out in Part I (*Letter from the Chairman of BT Group plc*) and Part VII (*Additional Information*) of this document.

Market data

Where information contained in this Circular has been sourced from a third party, BT and the Directors confirm that such information has been accurately reproduced and, so far as they are aware and have been able to ascertain from information published by third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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PART I

LETTER FROM THE CHAIRMAN OF BT GROUP PLC

BT GROUP PLC

(Company number: 4190816)

Directors:

Sir Michael Rake	*Chairman*
Gavin Patterson	*Chief Executive*
Tony Chanmugam	*Group Finance Director*
Tony Ball	*Non-Executive Director*
Iain Conn	*Non-Executive Director*
Warren East	*Non-Executive Director*
Phil Hodkinson	*Non-Executive Director*
Isabel Hudson	*Non-Executive Director*
Karen Richardson	*Non-Executive Director*
Nick Rose	*Non-Executive Director*
Jasmine Whitbread	*Non-Executive Director*

Registered office:

81 Newgate Street

London EC1A 7AJ

1 April 2015

To the holders of Ordinary Shares

Dear Shareholder

PROPOSED ACQUISITION OF EE LIMITED AND GENERAL MEETING

1. Introduction

On 5 February 2015 BT Group plc announced the proposed acquisition of the entire issued share capital of EE Limited from Deutsche Telekom and Orange for a total purchase price equivalent to £12.5 billion on a cash and debt free basis.

In view of its size, the Acquisition constitutes a Class 1 transaction for the purposes of the Listing Rules, and therefore requires the approval of Shareholders. Accordingly, a General Meeting of Shareholders has been convened at 10.00 a.m. on Thursday 30 April 2015 to be held at Old Billingsgate, 1 Old Billingsgate, London EC3R 6DX. The Notice of General Meeting can be found at the end of this Circular.

I am writing to give you further details of the Acquisition, including the background to and reasons for it, to explain why the Board considers it to be in the best interests of the Company and the Shareholders as a whole and to recommend that you vote in favour of the Acquisition and the Resolutions.

2. Background to and reasons for the Acquisition

BT s goal is to deliver sustainable, profitable revenue growth. This will support an increase in our cash flow generation over the long-term. BT aims to achieve its goal through investing in five strategic growth areas: fibre; TV and content; mobility and future voice services; UK business markets; and supporting leading global companies. By investing in these areas BT aims to broaden and deepen its relationships with consumers, businesses and public sector clients, increasing its relevance to them as markets and technologies evolve.

The Acquisition:

accelerates the mobility aspect of BT s strategy by providing immediate scale in terms of network, customers and operations;

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complements BT s long-term network vision to build a single, seamless, converged platform, supported by a single IP network, that is able to serve customers with no distinction between fixed and mobile; and

increases BT s capacity for future investment and innovation in networks, converged products and services, providing economies of scale as it continues to build world-class digital infrastructure in the UK.

Fixed-mobile converged products have seen strong take-up in a number of Continental European markets, to the benefit of consumers. BT expects there to be growing appetite for these products in the UK. Mobile devices are increasingly being used for data services, rather than just voice and text messaging. People are becoming more reliant on access to data whether in their home or business location, or on the move. The lines between fixed and mobile are blurring as people increasingly rely on tablets and smartphones to access data services.

Combining the UK s most advanced 4G network with the most extensive superfast broadband network will help BT to deliver innovative, seamless services that combine the power of fibre broadband with wi-fi and advanced mobile capabilities. This will help BT to be the network of choice for voice and data connectivity, wherever customers are, and whichever device they choose to use.

The assets of EE and BT are highly complementary with little overlap in market shares. The Acquisition will also provide BT with more of the financial benefits arising from higher data usage in the future.

The principal benefit of the Acquisition is the creation of the UK s leading fixed-mobile converged communications provider in the UK.

3. Information on EE Limited

EE delivers mobile and fixed communications services to consumers, businesses, government and the wholesale market in the UK. It is the leading mobile network operator in the UK with 30.9 million customers (as at 31 December 2014) across its mobile, fixed and wholesale businesses. Of these, 24.5 million are direct mobile customers, 834,000 are fixed broadband customers, 3.7 million are mobile virtual network operator (MVNO) customers and 1.9 million are machine-to-machine connections.

As at 31 December 2014, EE had 7.7 million direct 4G mobile customers, the largest 4G customer base of any operator in Europe. It also has the largest high street presence of the UK mobile network operators, with approximately 580 retail stores as at 31 December 2014.

EE runs the UK s biggest and fastest mobile network. It was ranked first for network performance by Rootmetrics in its August 2014 report. EE also has a strong spectrum position with 105 MHz of paired spectrum in a variety of bands widely deployed for 4G.

EE and BT share a vision for the importance of investing in high quality networks. EE has made substantial investments over the years, in acquiring mobile licences and in its network. It has spent around £1.5 billion on its network over the last three years, including the modernisation of its 2G network, upgrading its 3G network as well as the continued expansion of its 4G network. As at 5 February 2015, its 4G coverage reached more than 80 per cent. of the UK population, covering 510 towns and cities and almost 4,000 villages. Its 3G coverage reaches 98 per cent. of the population. EE announced on 11 February 2015 that it is committed to investing a further £1.5 billion over the following three years in its network. EE will focus on extending its 4G network to more than 99 per cent. of the population and 90 per cent. of the UK s geography.

As at 31 December 2014, EE had approximately 13,000 employees. In its audited financial statements for the year ended 31 December 2014, the EE Group reported gross assets of £13,859 million, EBITDA of £1,030 million and adjusted EBITDA of £1,589 million.[1]

4. Summary of the key terms of the Acquisition

Under the terms of the Share Purchase Agreement, BT will (subject to the satisfaction or waiver of certain conditions) acquire the entire issued share capital of EE for a purchase price equivalent to £12.5 billion on a debt and cash free basis.

1 EBITDA is defined by EE as the EE Group s net profit (loss) before interest, tax, depreciation and amortisation, and share of profits (losses) of associates and joint ventures. This is not a financial measure defined by IFRS and may not be comparable to other similarly-titled indicators used by other companies. Adjusted EBITDA is defined by EE as EBITDA before management and brand fees payable to its shareholders and restructuring and exceptional expenses.

BT notes that this is a different definition to that used by BT for its Adjusted EBITDA measure.

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It is expected that EE s existing borrowings, totalling £2.1 billion as at 31 December 2014, will remain outstanding at Completion. Based on £2.3 billion of adjusted net debt, being EE s net debt as at 31 December 2014, adjusted for other debt-like items, and using the reference price of 411.5 pence per Ordinary Share, being the closing price on 4 December 2014, the remaining consideration of £10.2 billion would be satisfied by BT as follows:

£5.1 billion to Deutsche Telekom comprising around 1.2 billion new Ordinary Shares and cash of around £200 million (which is subject to further variation in accordance with a cap and collar mechanism described below); and

£5.1 billion to Orange comprising around 0.4 billion new Ordinary Shares and cash of around £3.4 billion (which is subject to further variation in accordance with a cap and collar mechanism described below).

The Share Purchase Agreement contains a cap and collar protection mechanism which provides for an adjustment to the cash element of the consideration (but not the share element) where there is a movement in the Ordinary Share price from the reference price (as measured over a defined period of time prior to Completion), subject to:

a minimum share price per Ordinary Share of approximately 395.0 pence (being 4 per cent. below the reference price). A share price below this level would not result in further adjustment to the cash or share consideration and therefore the value of the Acquisition would fall below £12.5 billion; and

a maximum share price per Ordinary Share of approximately 428.0 pence (being 4 per cent. above the reference price). A share price above this level would not result in further adjustment to the cash or share consideration and therefore the value of the Acquisition would increase above £12.5 billion.

The Share Purchase Agreement is described in detail in Part IV (*Summary of the Principal Terms of the Acquisition*) of this Circular. It contains customary warranties, covenants, undertakings and conditions for a transaction of this nature. If the Board changes its recommendation that Shareholders vote in favour of the Acquisition prior to the vote taking place and Shareholders do not approve the Acquisition, or if BT recommends an alternative transaction prior to Completion and the Acquisition does not proceed to Completion as a result, then Deutsche Telekom and Orange can terminate the Share Purchase Agreement and BT shall pay a break fee of £250 million (in aggregate) to Deutsche Telekom and Orange.

Completion of the Acquisition is subject to clearance under the UK Enterprise Act 2002 from the CMA. The Share Purchase Agreement will terminate (and Completion will not occur) if any remedies required by the CMA in order to obtain merger clearance are not reasonable (unless BT, Deutsche Telekom and Orange agree to waive this condition). Further details of the conditions to completion of the Acquisition are set out in Part A of Part IV (*Summary of the Principal Terms of the Acquisition*).

BT will be required to publish a Prospectus in connection with the Acquisition in order to admit the Consideration Shares to be issued to Deutsche Telekom and Orange to the premium listing segment of the Official List.

The Prospectus will be published by BT shortly before Completion. BT expects the Acquisition to complete before the end of BT s 2015/16 financial year (31 March 2016).

BT has discussed the potential acquisition of EE with the Trustee of the BT Pension Scheme. The Trustee recognises that the ongoing financial strength of BT is an important protection to members and is supportive of strategic plans of BT that seek to enhance the covenant of BT.

5. Financial Effects of the Acquisition

Information on the expected effect of the Acquisition on the assets and liabilities of the Enlarged Group is set out in the unaudited pro forma statement of the combined net assets of the Enlarged Group as at 31 December 2014 in Part VI (*Unaudited Pro Forma Financial Information for the Enlarged Group*) of this Circular. After taking into account the impact of the Acquisition on the net assets of BT, this shows that the Enlarged Group would have had net assets of £7.8 billion at 31 December 2014 on a pro forma basis.

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The Board believes that the Acquisition will generate considerable value for shareholders, with significant cost savings as well as revenue synergies.

Adjusting for the net present value of operating cost and capex synergies, the Acquisition values EE at a multiple of 6.0x 2014 EBITDA and 9.6x 2014 OpFCF.[2] The Acquisition is expected to be accretive to FCF per Ordinary Share from the first full year post-Completion.[3] As a result of EE s high amortisation and depreciation charge, the Acquisition is expected to be accretive to Adjusted EPS one year later[4].

The cash return on investment is expected to comfortably exceed BT s cost of capital in the third year post-Completion on the basis of estimated synergies and integration costs.

Cost savings

The Acquisition is expected to generate significant operating cost savings and additional capex savings. Together these are expected to reach approximately £360 million per annum in the fourth full year post-Completion. Integration costs to achieve these savings are expected to be around £600 million. The savings are equivalent to a net present value of around £3.5 billion before integration costs or around £3.0 billion after integration costs.

Both BT and EE have a proven track record in delivering transformation with strong financial results. BT brings its tried and tested approach to cost transformation, which uses forensic analysis to redesign processes to remove inefficiency, reduce the cost of failure and improve customer experience. EE has demonstrated its ability to deliver post-transaction synergies ahead of initial expectations following its creation by the merger of the Orange Group s UK business and the Deutsche Telekom Group s UK business. BT is confident it can use the combined experience to unlock significant synergies across the Enlarged Group.

The operating cost and capex savings are expected to be achieved as follows:

- commercial savings with an annual run-rate of approximately £70 million from consolidating sales and marketing operations, procurement efficiencies and simplifying digital platforms and the brand portfolio;

- IT savings with an annual run-rate of approximately £90 million through consolidating IT systems and insourcing activities;

- network savings with an annual run-rate of approximately £80 million through integrating some network elements and insourcing certain activities; and

- operational savings with an annual run-rate of approximately £120 million from consolidating head office functions, rationalising property and realising scale economies in customer service operations.

Revenue synergies

BT expects to generate revenue synergies by providing a full range of communications services to the combined customer base. This includes selling BT s broadband, fixed telephony and pay-TV services to those EE customers who do not currently take a service from BT. BT also expects to accelerate the sale of converged fixed-mobile services to its existing consumer and business customers and offer new services, using both companies product portfolios, skills and networks. BT expects revenue synergies, over and above the revenue it had expected to be generated from its standalone mobile strategy, to have a net present value of around £1.6 billion. The revenue synergies are expected on a recurring basis, reaching a run-rate level in the fourth year post-Completion.

The synergies, cost savings and integration costs described above reflect both the beneficial elements and the relevant costs and are contingent on the Acquisition and could not be achieved independently.

2 The multiples are calculated based on: an Acquisition price of £12.5 billion less the NPV of the operating cost and capex synergies after integration costs of approximately £3.0 billion; and EE Adjusted EBITDA for the twelve months to 31 December 2014 of £1,589 million and OpFCF for the twelve months to 31 December 2014 of £993 million (both adjusted to remove management and brand fees of £146 million, restructuring costs of £77 million and exceptional expenses of £336 million), as reported in EE s results for the year ended 31 December 2014.

3 After operating cost and capex synergies and before integration costs.

4 After operating cost and capex synergies and before integration costs, and excluding purchase accounting adjustments relating to the Acquisition. This statement regarding earnings enhancement is not intended to be a profit forecast and should not be interpreted to mean that the earnings per Ordinary Share for the current or future financial periods will necessarily be greater than those for the relevant preceding financial period.

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6. Integration Plan

BT s integration approach will balance the opportunity to realise substantial synergies with the need to sustain trading momentum in markets which are, and will continue to be, highly competitive. BT will continue to emphasise its Customer First initiative and respect the breadth and depth of talent in both organisations.

An integration project management office will manage the overall integration process that will take place following Completion. It will facilitate cultural integration and track synergy realisation from a financial and an operational perspective. The Board will track progress through an integration committee. During the period until Completion, integration planning will be undertaken in partnership with EE, in conformity with relevant competition laws.

7. Financing of the Acquisition

The consideration for EE will be payable as a combination of cash and new Ordinary Shares issued to both Deutsche Telekom and Orange. BT intends to finance the cash consideration to be paid to Deutsche Telekom and Orange of approximately £3.6 billion[5] through a combination of the net proceeds of the Equity Placing, which closed on 17 February 2015 and raised net proceeds of approximately £1 billion, and new debt financing. BT entered into a bridge facility agreement at the time of signing the Share Purchase Agreement, details of which are set out in Part VII (*Additional Information*) of this Circular.

BT expects that its existing credit rating will be at least maintained following Completion.

8. Post Acquisition Arrangements with Deutsche Telekom and Orange

At Completion, Deutsche Telekom will hold a 12 per cent. stake in BT and Orange will hold a 4 per cent. stake. Each of Deutsche Telekom and Orange will enter into additional shareholder agreements with BT at Completion providing all investors with visibility of BT s shareholder structure for the subsequent near term. Further details of these arrangements are set out in Part IV (*Summary of the Principal Terms of the Acquisition*) of this Circular.

At Completion, BT will enter into the Relationship Agreement with Deutsche Telekom governing its relationship with BT as a shareholder in BT. For a period of three years following Completion, the Deutsche Telekom Group will (subject to certain exceptions) be restricted from purchasing Ordinary Shares, unless it acquires these directly from Orange in which case its holding can increase to a maximum of 15 per cent. of the Company s issued ordinary share capital. The Deutsche Telekom Group will be subject to a lock-up in respect of all of its Ordinary Shares for a period of 18 months following Completion, subject to certain exceptions allowing off-market sales to Financial Investors (who will then be subject to substantially similar lock-up restrictions for the remainder of the 18 month period).

At Completion, Orange will enter into the Standstill and Lock-up Agreement which means that, for a period of three years following Completion, the Orange Group will (subject to certain exceptions) be restricted from purchasing Ordinary Shares that would increase its total holding above 4 per cent. The Orange Group will also be subject to a lock-up in respect of all of its Ordinary Shares for a period of 12 months following Completion, subject to certain exceptions. During the lock-up period, Orange will be allowed to sell Ordinary Shares to Deutsche Telekom subject to Deutsche Telekom s holding remaining at or below 15 per cent., as described above. During this period, Orange will be able to make off-market sales to Financial Investors (who will then be subject to substantially similar lock-up restrictions for the remainder of the 12 month period).

BT has negotiated a right of first offer in respect of any off-market sales to Financial Investors by either Deutsche Telekom or Orange during their lock-up periods. The contingent purchase agreements (the CP Contracts) to effect any such buy-back will take effect at Completion provided Shareholders approve these agreements. Shareholder authority is being sought at the General Meeting, notice of which is set out at the end of this Circular. Under these agreements, the maximum amount of Ordinary Shares BT can acquire in aggregate by exercising its right of first offer is approximately 14 per cent. of BT s share capital on an enlarged basis post-Acquisition. The price at which Ordinary Shares can be bought back shall be no more than the higher of the closing price of the Ordinary Shares on (i) the date on which BT makes an offer to buy-back the Ordinary Shares and (ii) the last trading day before the buy-back takes place.

[5] Assuming the equity component of the consideration is worth £6.6 billion, based on the reference price of 411.5 pence per Ordinary Share, and adjusted net debt for EE of £2.3 billion as at 31 December 2014.

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In addition, BT has separately undertaken to give the Sponsor prior notice of its intention to make an offer for Ordinary Shares under the DT CP Contract, to consult with the Sponsor regarding such offer and not to make such offer unless at the relevant time the Board, having been so advised by the Sponsor, considers such offer to be fair and reasonable as far as Shareholders are concerned.

9. Information on the Enlarged Group

The Enlarged Group will be one of the world s leading communications services companies, serving the needs of customers in the UK and in more than 170 countries worldwide. Its main activities will be the provision of fixed-line services, broadband, mobile and TV products and services as well as networked IT services.

In the UK it will be a leading communications services provider, selling products and services to consumers, enterprises and the public sector.

It will also sell wholesale products and services to communications providers in the UK and around the world. Globally, it will supply managed networked IT services to multinational corporations, domestic businesses and national and local government organisations.

It will have approximately 100,000 employees.

10. Current trading and prospects

BT

We continue to invest in expanding our fibre broadband network in the UK, which currently covers around three-quarters of premises. Consumers and businesses increasingly want faster broadband speeds and we have seen good demand for our fibre broadband product, which is sold through our own lines of business as well as by other communications providers. On 30 January 2015 we announced large-scale pilots of ultrafast broadband with G.fast technology that will take place this summer in Huntingdon, Cambridgeshire and Gosforth, Newcastle. We expect to deploy this technology at scale and it will help us make ultrafast broadband speeds of up to 500Mbps available to most of the UK within a decade. Our fibre investment is being undertaken by Openreach which sells services to all communications providers on the same terms as to other BT lines of business. Within Openreach, the growth in fibre broadband revenue continues to be offset by the impact of regulation.

In our other wholesale business unit, BT Wholesale, we have seen a continued reduction in our traditional calls, lines and circuits revenue. This division is also being impacted by broadband lines migrating to Local Loop Unbundling (LLU), which means that they are being acquired directly from Openreach instead.

The market for telephony, broadband and TV services for consumers remains challenging with ongoing price promotions from all of the main communications providers. To win customers BT Consumer offers competitively priced and differentiated packages that support its value-for-money positioning. In the third quarter to 31 December 2014, customers started to benefit from Right Plan, which helps households find the best value calling plan for them. We offer BT Basic with broadband, the UK s cheapest line and broadband bundle for low-income customers.

As well as driving take-up of broadband, BT Consumer has continued to focus on the sale of its TV service, BT TV. We have recently made a number of improvements to it. In the third quarter, we launched TV Everywhere, which means customers can watch TV channels on multiple devices. We became the UK s first TV platform to make buy-to-keep movies available on multiple devices in addition to the set-top box. We also launched Netflix and a range of new packages.

Within our business units, BT Global Services is seeing the impact of lower revenue from the public sector, continuing the decline seen in previous quarters. This effect has been partly offset by higher revenue in our high-growth regions of Asia Pacific, Latin America, Turkey and the Middle East and Africa.

BT Business continues to see the impact of declining business call and line volumes, as customers move to data and VoIP services. It has launched a number of new products in the 2014/15 financial year, such as BT One Phone, BT Cloud Voice and BT Cloud Phone. It is focused on selling these, as well as a range of IT services, to small and medium sized enterprises in the UK.

For the group as a whole, we continue to drive our cost transformation activities. By focusing on improving our processes, we aim to reduce the cost of things going wrong while simultaneously improving the service we provide to our customers.

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EE Limited

EE continues its strategy of network leadership and innovation with 7.7 million 4G customers at the end of 2014. On 11 February 2015, EE announced a further £1.5 billion investment over the following three years to deliver 4G to more than 99 per cent. of the population, double-speed 4G to reach 90 per cent. of the population, a rural investment programme for both voice and data to reach 90 per cent. of the UK geography and world-leading performance with 99.6 per cent. reliability.

Demand for 4G is strong. In the quarter to 31 December 2014, 94 per cent. of new postpaid customers selected 4G, of which nearly half opted for double-speed 4GEE Extra. The shift in the market away from prepaid towards postpaid continued throughout 2014.

In 2015, EE plans to retain mobile service revenue leadership, further improve its adjusted EBITDA margin and grow EBITDA minus capex.

11. Dividend policy of the Enlarged Group

On 30 January 2015, BT reconfirmed its intention to grow its dividend per share by 10 to 15 per cent. in both 2014/15 and 2015/16. BT s dividend policy is to pay a progressive dividend. This policy will not be affected by the Acquisition.

12. Profit Forecast

On 30 January 2015, BT published its results for the third quarter and nine months to 31 December 2014. These results reconfirmed BT s guidance to financial markets and included a statement that we expect adjusted EBITDA of £6.2 billion to £6.3 billion in 2014/15 with further growth in 2015/16 . This statement constitutes a profit estimate and a profit forecast for the purposes of the Listing Rules. The profit estimate relates to the period ended 31 March 2015 (the FY14/15 Profit Estimate). The profit forecast relates to the period ending 31 March 2016 (the FY15/16 Profit Forecast).

The Directors have considered and confirm that both the FY14/15 Profit Estimate and the FY15/16 Profit Forecast remain correct at the date of this document. Further information in relation to the FY14/15 Profit Estimate and the FY15/16 Profit Forecast are provided in Part VII (*Additional Information*) of this Circular.

13. The Board

Under the Relationship Agreement to be entered into at Completion, Deutsche Telekom will be entitled to appoint one board member to the BT Board of Directors. This board member will have a letter of appointment substantially similar to other Non-Executive Directors of the Company but with no right to remuneration.

14. Settlement, listing and dealing of the Consideration Shares

The Consideration Shares will be issued at Completion, credited as fully paid and will rank *pari passu* in all respects with the Ordinary Shares, including the right to receive all dividends, distributions or any return of capital declared, made or paid after Completion. Dealings in the Consideration Shares by Deutsche Telekom and Orange are restricted for a period of time by the terms of the Transaction Documents as discussed above (see also Part IV (*Summary of the Principal Terms of the Acquisition*) of this Circular).

15. The General Meeting

The Notice of General Meeting, at which the Resolutions summarised below will be proposed, is included at the end of this Circular. The Acquisition Resolution is required in order to enable the Company to implement the Acquisition and, accordingly, the Acquisition is conditional on the Acquisition Resolution being passed. In addition the right of first offer, which BT has in respect of any off-market sales to Financial Investors by either Deutsche Telekom or Orange during their lock-up periods, requires shareholder approval, which is also being sought. The Acquisition is not conditional on the passing of this Buy-Back Resolution. The full text of the Resolutions is set out in the Notice of General

Meeting.

The Acquisition Resolution proposes that: (i) the Acquisition be approved and that the Directors be authorised to take all steps and enter into all agreements and arrangements necessary or desirable to implement the Acquisition; and (ii) the Directors be authorised to allot the Consideration Shares in accordance with the terms of the Share Purchase Agreement.

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The Buy-Back Resolution approves the buy-back of Ordinary Shares by BT from Deutsche Telekom and/or Orange in the event that BT exercises its right of first offer in respect of the sale of such Ordinary Shares.

Should the Buy-Back Resolution be passed, if and when the right of first offer arises, the Directors will consider whether to exercise that right as authorised under the Buy-Back Resolution, and if so, whether to cancel any Ordinary Shares bought back or hold them in treasury.

In addition to the Companies Act requirement to seek shareholder approval, approval is also required because any buy-back of Ordinary Shares from Deutsche Telekom would be a related party transaction (as defined in the Listing Rules), as a result of Deutsche Telekom being a substantial shareholder (as defined in the Listing Rules) of BT at that time.

The Resolutions will be proposed as ordinary resolutions. The Resolutions must be approved by Shareholders who together represent a simple majority of the Ordinary Shares being voted (whether in person or by proxy) at the General Meeting.

16. Action to be taken

A Form of Proxy for use in relation to the General Meeting which covers the Resolutions to be proposed at the General Meeting accompanies this Circular. Shareholders can also register the appointment of their proxy electronically at **www.sharevote.co.uk** In order for holders of ADRs to vote on the Resolutions, a completed ADR Voting Instruction Form must be returned to the Depositary so as to be received no later than 12.00 p.m. New York City time on Tuesday 28 April 2015.

If you hold Ordinary Shares in CREST, you may instead appoint a proxy by completing and transmitting a CREST Proxy Instruction to the Company s registrars, Equiniti. Guidance notes to assist you in completing the Form of Proxy or to register the appointment of a proxy electronically or to complete and transmit a CREST Proxy Instruction are set out in the Notice of General Meeting at the end of this Circular.

Whether or not you intend to be present at the General Meeting, Shareholders are requested to complete and return the accompanying Form of Proxy in accordance with the instructions printed thereon or to register the appointment of a proxy electronically or, if you hold Ordinary Shares in CREST, to complete and transmit a CREST Proxy Instruction.

Completed Forms of Proxy should be returned to the Company s registrars, Equiniti, and any electronic proxy instruction or CREST Proxy Instruction should be made as soon as possible and, in any event, so as to be received no later than 10.00 a.m. on Tuesday 28 April 2015.

The completion and return of a Form of Proxy or the transmittal of an electronic proxy registration or CREST Proxy Instruction will not prevent you from attending the General Meeting and voting in person if you wish to and are entitled to do so.

17. Further Information

Your attention is drawn to the further information set out in Part II (*Risk Factors*) to Part VII (*Additional Information*) of this Circular and in particular the risk factors set out in Part II (*Risk Factors*) of this Circular. Investors should read the whole of this Circular and not rely solely on information summarised in this letter, including the summarised financial information.

18. Recommendation

The Board has received financial advice from Goldman Sachs International, J.P. Morgan Cazenove and Perella Weinberg in relation to the Acquisition. In providing such financial advice to the Board, Goldman Sachs International, J.P. Morgan Cazenove and Perella Weinberg have relied on the Board s commercial assessment of the Acquisition.

The Board, having been so advised by J.P. Morgan Cazenove considers the buy-back of Ordinary Shares by BT from Deutsche Telekom, in the event BT exercises its right of first offer (in accordance with the Buy-Back Resolution) pursuant to and in accordance with the terms of the DT CP Contract, to be fair and reasonable as far as the Shareholders are concerned. In providing advice to the Board, J.P. Morgan Cazenove has taken into account the commercial assessment of the Board.

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The Directors consider the terms of the Acquisition and the Resolutions to be in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors unanimously recommend that Shareholders vote in favour of the Resolutions as they intend to do in respect of their own beneficial holdings of Ordinary Shares.

Yours faithfully,

for and on behalf of BT Group plc

Sir Michael Rake

Chairman

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PART II

RISK FACTORS

Prior to voting on the Resolutions at the General Meeting, you should carefully consider, together with all other information contained in this Circular, the specific risks and uncertainties described below.

The Directors consider the following to be the material risk factors relating to the Acquisition and to which BT, EE and, following Completion, the Enlarged Group will be exposed following the Acquisition. However, these should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. Additional risks and uncertainties that are not presently known to the Directors, or which they currently deem immaterial, may also have an adverse effect on the Enlarged Group s operating results, financial condition and prospects if they materialise. The information given is as at the date of this Circular and, except as required by the FCA, the London Stock Exchange, the Listing Rules or the Disclosure and Transparency Rules (and/or any regulatory requirements or applicable law), will not be updated.

If any or a combination of the following risks and uncertainties actually materialise, the Enlarged Group s business, financial condition and results of operations could be materially and adversely affected. In such case, the price of the Ordinary Shares could decline and Shareholders may lose some or all of their investment.

Risks relating to the Acquisition

The Acquisition is conditional and the Conditions may not be satisfied

Completion is conditional upon satisfaction or, where capable of being waived, waiver of various Conditions, including the following Conditions, prior to the Long Stop Date (or such later date as the parties may agree):

(a) passing of the Acquisition Resolution; and

(b) clearance of the Acquisition by the CMA (or the European Commission, if the Acquisition is referred to the European Commission s jurisdiction under Article 22 of the European Union Merger Regulation).

In the event that: (a) the General Meeting resolves not to approve the Acquisition Resolution; or (b) the Conditions are not satisfied or, where capable of being waived, waived by the Long Stop Date (or such later date as the parties may agree), the Share Purchase Agreement will automatically terminate.

If the Acquisition Resolution is approved at the General Meeting and each of the other Conditions is satisfied (or, where capable of being waived, waived) prior to the Long Stop Date (or such later date as the parties may agree), the Company will be contractually obliged to proceed to Completion unless the Share Purchase Agreement is otherwise terminated in accordance with its terms.

There can be no assurance that the Conditions will be fulfilled (or waived, where capable of being waived) or that the Acquisition will be completed.

Merger clearance consents may take longer than expected to obtain and/or may not be granted or may be granted subject to conditions or remedies

The Acquisition is subject to merger control approval from the CMA in the UK (or the European Commission, if the Acquisition is referred to the European Commission s jurisdiction under Article 22 of the European Union Merger Regulation).

The telecommunications industry has recently been the subject of various transactions across Europe and the Acquisition may be subject to detailed scrutiny from merger control authorities. Approval from the CMA may take longer than expected to obtain and/or may not be granted or may be granted subject to conditions or remedies, such as the divestment by BT or EE of certain assets or businesses and/or the imposition of restrictions on the conduct of the businesses of the Enlarged Group and/or other behavioural remedies. Any such divestments, restrictions or remedies could delay or jeopardise Completion, impose sustained additional costs for the Enlarged Group and/or materially reduce the anticipated benefits (including synergy benefits) of the Acquisition or result in an adverse effect on the operating results, business, financial condition and prospects of the Enlarged Group.

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The Enlarged Group may not realise the desired synergy benefits from the Acquisition

BT is targeting significant synergies from the Acquisition, and the financial planning for the Enlarged Group is based in part on realising these synergies, which include expected operating cost savings and capital expenditure savings of, in aggregate, £360 million per annum, to be realised in the fourth full year following Completion. Realisation of these synergies will depend partly on the rapid and efficient management and co-ordination of the activities of the Enlarged Group s businesses. There is a risk that synergy benefits from the Acquisition may fail to materialise, or they may be materially lower than estimated. In addition, the cost of achieving these synergies, which are expected to be around £600 million, may exceed expectations. Such eventualities could have an adverse effect on the operating results, business, financial condition and prospects of the Enlarged Group, including its ability to support its pension deficit.

EE may not perform in line with expectations in the period prior to Completion

The anticipated benefits and synergies of the Acquisition are based on assumptions regarding, amongst other things, the financial and operational performance of EE, including in the period prior to Completion, when the financial and operational performance of EE is outside the control of BT. Until Completion, it is possible that an adverse event, or events, could affect EE which would not give rise to a right of BT to terminate the Acquisition. In such an event, the value of EE may be less than the consideration paid by BT and, accordingly, the net assets of the Enlarged Group could be reduced. This could have an adverse effect on the operating results, business, financial condition and prospects of the Enlarged Group.

The Acquisition may result in a loss of customers for BT or EE and, following Completion, the Enlarged Group

As a result of the Acquisition, some of BT s or EE s customers or strategic partners may terminate or reduce their business relationships with the Enlarged Group. Such customers may not wish to see an increase in the proportion of services sourced from a single company. Potential customers of BT or EE may delay entering into, or decide not to enter into, a business relationship with BT or EE until Completion on account of any perceived uncertainty over the Acquisition. If BT s or EE s relationships with their respective customers are negatively impacted by the Acquisition, this could result in an adverse effect on the operating results, business, financial condition and prospects of the Enlarged Group.

Prior to Completion, EE, and following Completion, the Enlarged Group, may fail to retain key personnel and other employees

The calibre and performance of the Enlarged Group s management and other employees, taken together, is important to the success of EE prior to Completion, and to the Enlarged Group following Completion and, while plans are, or will be put, in place for the retention of management and other key employees following Completion, there can be no assurance that prior to Completion, EE will not lose key personnel (or a significant number of personnel), or that the Acquisition will not result in the departure of management and/or employees from the Enlarged Group. The departure of key or of a significant number of management or employees could adversely affect BT s ability to realise the benefits and synergies of the Acquisition. Such departures could also adversely affect both the Enlarged Group s ability to conduct its businesses (through an inability to execute business operations and strategies effectively) and the value of those businesses, which could have an adverse effect on the operating results, business, financial condition and prospects of the Enlarged Group.

The Enlarged Group may experience difficulties in integrating EE with the existing businesses carried on by BT and the Enlarged Group may not realise, or it might take the Enlarged Group longer than expected to realise, certain or all of the anticipated benefits of the Acquisition

BT and EE currently operate and, until Completion, will continue to operate as two separate and independent businesses. The Acquisition will require the integration of the businesses and the success of the Enlarged Group will depend, in part, on the effectiveness of the integration process and the ability of the Enlarged Group to realise the anticipated benefits and synergies from combining the respective businesses. These benefits include, among other things, fixed-mobile convergence, in order to serve customers through a single, seamless platform supported by a single IP network, and being able to offer BT products to EE customers and EE products to BT customers. Some of the potential challenges in combining the businesses may not be known until after Completion. If the anticipated benefits are not achieved, for example through unforeseen difficulties in implementing fixed-mobile convergence or a lack of customer demand for such offerings, the purposes and rationale for the Acquisition will not be fully achieved, which could as a result have an adverse effect on the operating results, business, financial condition and prospects of the Enlarged Group, including its ability to support its pension deficit.

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The key potential difficulties of combining the businesses include the following:

- co-ordinating and consolidating services and operations, particularly across different service areas, regulatory systems and business cultures;
- consolidating infrastructure, procedures, systems, facilities, accounting functions, compensation structures and other policies;
- implications of change of control and business combination provisions contained in BT s and EE s client and other agreements triggered as a result of the Acquisition;
- integrating the management teams and retaining and incentivising key employees;
- co-ordinating communications with and/or the provision of services by the Enlarged Group to clients of BT and EE;
- operating and integrating a large number of different technology platforms and systems; and
- disruption to the ongoing businesses of each of BT and EE.

The process of integrating the businesses could potentially lead to the interruption of operations of the businesses or a loss of clients and/or key personnel, either or both of which could have an adverse effect on the business, financial condition and results of operations of the Enlarged Group. Any delays or difficulties encountered in connection with the integration of the businesses could also lead to reputational damage to the Enlarged Group. BT s and EE s management teams will be required to devote significant attention and resources to integrating their respective business practices and operations. There is a risk that the challenges associated with managing the integration of BT s and EE s respective businesses will result in management distraction and that consequently the underlying businesses will not perform in line with expectations.

BT and EE expect to incur a number of costs in relation to the Acquisition, including integration and post-Completion costs, which could exceed amounts estimated. There may also be further additional and unforeseen expenses incurred in connection with the Acquisition. These costs could have an adverse effect on the operating results, business, financial condition and prospects of the Enlarged Group.

Third parties may terminate or alter existing contracts with EE as a result of the Acquisition

EE has contracts with suppliers, distributors, clients, licensors, licensees, lessees, lessors, lenders, insurers, landlords, other business partners and counterparties (including Deutsche Telekom and Orange), some of which contain change of control or similar clauses that allow the counterparty to terminate or change the terms of their contract upon Completion, or may otherwise allow the counterparty to exert leverage to renegotiate the terms of the existing contract upon Completion. BT and EE will seek to obtain consents from certain of these counterparties to the continuance of the contract after the change of control, and may renegotiate terms with others. There can be no assurance that the Enlarged Group will be able to contract on the same terms as EE does prior to Completion. If third party consents cannot be obtained, or terms that are renegotiated are unfavourable when compared with the current contracts, there may be an adverse effect on the operating results, business, financial condition and prospects of the Enlarged Group.

EE provides and, following Completion, the Enlarged Group will provide MVNO services to various operators in the mobile telecommunications market which do not have their own mobile telecommunications infrastructure. EE s MVNO services allow these operators to use EE s network to route calls to and from their customers. The provision of MVNO services is a significant source of income for EE, and if one or more of EE s MVNO customers terminated its MVNO arrangements with EE or, following Completion, the Enlarged Group, or was otherwise unable or unwilling to continue to purchase such services from EE or, following Completion, the Enlarged Group, this could have an adverse effect on the operating results, business, financial condition and prospects of the Enlarged Group.

The Enlarged Group may face increased costs when it seeks to refinance its debt as a result of its increased level of debt following the Acquisition

The Acquisition will be funded in part by the £3,600,000,000 debt bridge facility, which is described in Part VII (*Additional Information*) of this Circular and may be extended for an additional 12 months following its one year maturity.

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The costs and other terms on which the Enlarged Group is able to refinance the Debt Bridge Facility and other longer-term indebtedness will depend in part upon market conditions. Unfavourable economic conditions may arise which could impact the cost and terms on which the Enlarged Group is able to access capital markets to refinance its indebtedness which may among other things increase its cost of capital.

RISKS RELATING TO THE BUSINESS AND INDUSTRY OF BT, EE AND THE ENLARGED GROUP FOLLOWING THE ACQUISITION

BT, EE and, following Completion, the Enlarged Group face strong competition in highly competitive markets

BT, EE and, following Completion, the Enlarged Group operate in markets which are characterised by all or some of: high levels of change; strong and new competition; declining prices and, in some markets, declining revenues; technology substitution; market and product convergence; customer churn; and regulatory intervention to promote competition and reduce wholesale prices.

Competition in the UK mobile telecommunications market is intense. Competition results from, among other things, the market entry of alternative and lower cost carriers (such as MVNOs), technology developments (such as Voice over Internet Protocol (VoIP)), and the ability of other providers to bundle mobile phone services with different products and content (such as broadband and pay-TV). In particular, technologies such as VoIP and so called over the top platforms (such as iMessage, Facetime, Blackberry Messenger, WhatsApp and Facebook Messenger) could reduce voice and/or text messaging traffic on mobile networks, which could lead to significant price and revenue reductions.

Increased competition has led to a decline in the prices which EE charges for its mobile services and is expected to lead to further declines in pricing in the future. Competition could also lead to a reduction in the rate at which EE and, following Completion, the Enlarged Group adds new mobile customers, a decrease in the size of EE s and, following Completion, the Enlarged Group s mobile market share and a decline in EE s and, following Completion, the Enlarged Group s service revenue as customers choose to receive telecommunications services or other competing services from other providers. In addition, there is a risk that the churn rate of EE customers is increased as a result of the transition away from the legacy T-Mobile and Orange brands and any potential changes to the branding in future, following Completion. An increase in churn rates could adversely affect profitability because EE and, following Completion, the Enlarged Group would experience lower revenue and/or additional selling costs to replace customers or recapture lost revenue.

Fixed-mobile convergence is a trend visible in many Continental European countries and increasingly in UK markets. A number of providers are competing in this space. In addition, the Acquisition may stimulate other operators to react to fixed-mobile convergence provided the UK market develops in this way.

Failure to achieve sustainable, profitable revenue growth could erode BT s and EE s and, following Completion, the Enlarged Group s competitive position and reduce their profitability, cash flow and ability to invest for the future.

Supplier failure and the failure of joint ventures to meet their obligations to BT, EE and following Completion, the Enlarged Group, could compromise BT, EE and, following Completion, the Enlarged Group s commitments

BT and EE and, following Completion, the Enlarged Group have a number of suppliers and joint venture or consortium partners identified as critical.

EE is party to a complex and critical network sharing joint venture and associated arrangements with Hutchison 3G UK Limited (Hutchison). The failure of the joint venture to fully support EE s and, following Completion, the Enlarged Group s interests and goals, or any material disruption to the operation of EE s network sharing arrangement, may have an adverse effect on EE s and, following Completion, the Enlarged Group s business.

EE s critical suppliers include providers of smartphones and tablets. As demand for smartphone and tablet products increases around the world, there is a risk that there could be shortages in the volume of devices produced as a result of insufficient manufacturing capacity, a lack of availability of internal components such as processors or major supply chain disruptions. This may result in delays in the supply chain which in turn may have an adverse effect on EE s and, following Completion, the Enlarged Group s business and operations.

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Delays in the development of handsets and network compatibility and components may hinder the deployment of new technologies for the Enlarged Group

BT s and EE s and, following Completion, the Enlarged Group s operations depend in part upon the successful deployment of continuously evolving telecommunications technologies.

BT and EE use technologies from a number of vendors and incur significant capital expenditure in connection with the deployment of such technologies. There can be no assurance that common standards and specifications will be achieved, that there will be interoperability across BT s, EE s and other networks, or that technologies will be developed according to anticipated schedules, will perform according to expectations or will achieve commercial acceptance. The introduction of software and other network components may also be delayed. The failure of vendor performance or technology performance to meet BT s or EE s expectations or the failure of a technology to achieve commercial acceptance could result in additional capital expenditure by, or reduction in profitability of, BT, EE or, following Completion, the Enlarged Group.

BT, EE and, following Completion, the Enlarged Group may not realise the expected level of demand for their products and services, nor the expected level or timing of revenues generated by those products and services, as a result of technological change or lack of market acceptance

There is a risk that BT or EE or, following Completion, the Enlarged Group will not succeed in making customers sufficiently aware of existing and future services or in creating customer acceptance of these services at the prices BT or EE or, following Completion, the Enlarged Group would want to charge. There is also a risk that BT or EE or, following Completion, the Enlarged Group will not identify trends correctly, or that BT or EE or, following Completion, the Enlarged Group will not be able to bring new services to market as quickly or price-competitively as their competitors.

These risks exist with respect to both anticipated future growth drivers in the mobile telecommunications area (such as mobile data services or other advanced technologies which are supported by smartphone products) as well as in the non-mobile telecommunications areas (such as mobile payment services based on contactless technology) where there is a risk that their choice of technology could put EE and, following Completion, the Enlarged Group at a competitive disadvantage.

Further, as a result of rapid technological progress and the trend towards technological convergence, there is a danger that new and established information and telecommunications technologies or products may not only fail to complement one another but in some cases, may even become a substitute for one another. An example of this is the risk that over the top services (being those which are provided by a third party to the end user device) develop substitutes for BT s and EE s own products and services. Another example of this is VoIP, a technology that is already established in the business customer market and which has now reached the consumer market. The introduction of mobile handsets with VoIP functionality may adversely affect EE s and, following Completion, the Enlarged Group s pricing structures and market share in its mobile voice telephony business. If BT and EE and, following Completion, the Enlarged Group do not appropriately anticipate the demand for new technologies, and adapt their strategies, service offering and cost structures accordingly, BT or EE or, following Completion, the Enlarged Group may be unable to compete effectively, which may have an adverse effect on their business and operations.

The Enlarged Group faces risk regarding increases in spectrum pricing and regulation

BT, EE and, following Completion, the Enlarged Group will monitor any developments from regulators relating to the allocation of mobile spectrum in the United Kingdom. Regulators, including Ofcom in the United Kingdom, set annual licence fees for spectrum bands used by BT and EE for voice calls, 3G and 4G services and EE is a party to an ongoing consultation with Ofcom in relation to this. Any significant increases in spectrum pricing applicable to the Enlarged Group could have a material adverse effect on the Enlarged Group s business and results of operations.

Ofcom may, after consultation, vary conditions in relation to spectrum licences. The scope and form of the regulation of wholesale services is reviewed every three years and can include controls on the level of prices charged for regulated inputs. An example of this regulatory change is Ofcom s recent variation of the 900 MHz and 1,800 MHz licences of the four mobile network operators to require them to extend coverage to 90 per cent. of the UK by the end of 2017. Ofcom sought the agreement of the four mobile network operators to this change. This will result in increased capital expenditure by EE to comply with this obligation.

As technology and market dynamics develop and as the mobile business of EE is integrated into BT then a wider range of existing regulations will apply to the Enlarged Group and a broader range of new and/or modified regulations may be directed at the Enlarged Group. For example, Ofcom has announced a Strategic Review of Digital Communications, assessing the UK s digital communications markets, including the broadband, mobile and landline markets.

Expected benefits from investment in networks, licences and new technology may not be realised by the Enlarged Group

EE, as well as BT to a lesser extent, has made substantial investments in the acquisition of licences. EE has invested in its mobile networks, including the modernisation of its 2G network, the upgrade of its 3G network and the continued expansion of its 4G network which was launched in October 2012. EE expects to continue to make significant investments in its mobile networks due to increased usage and the need to offer new services and greater functionality afforded by new or evolving telecommunications technologies (such as 4G). It may acquire new spectrum licences in the future with licence conditions which could include network coverage obligations or higher than expected licence fees. Accordingly, the rate of the Enlarged Group s capital expenditures and costs in future years could increase and exceed those which EE and, following Completion, the Enlarged Group has experienced to date.

There can be no assurance that the introduction of new services will proceed according to anticipated schedules or that the level of demand for new services will justify the cost of setting up and providing new services (in particular, the cost of new network spectrum licences and network infrastructure, e.g. for 4G services and subsequent evolutions). Failure or a delay in the completion of networks and the launch of new services, or increases in the associated costs, could have an adverse effect on the Enlarged Group s business and operations and could result in significant write downs of the value of network spectrum or other licences or other network-related investments.

Should the current economic climate worsen, the Enlarged Group may decide, or be required, to scale back capital expenditures. While the Directors believe that the Enlarged Group would have flexibility in terms of the amount and timing of its capital expenditure programme, a lasting reduction in capital expenditure levels below certain thresholds could affect its ability to invest in its mobile telecommunications network (including additional spectrum), new technology and its other businesses and therefore could have an adverse effect on its future growth and the value of its radio spectrum.

The Enlarged Group s business may be impaired by actual or perceived health risks associated with the transmission of radio waves from mobile telephones, transmitters and associated equipment

Media reports have suggested that radio frequency emissions from wireless mobile devices and mobile telecommunications sites may cause various health issues, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. Research and studies are ongoing. The World Health Organisation has declared that, on the basis of current scientific knowledge, there are no known adverse effects on health from emissions at levels below internationally recognised health and safety standards. However, the Enlarged Group cannot provide assurance that research in the future will not establish links between radio frequency emissions and health risks.

Whether or not such research or studies conclude that there is a link between radio frequency emissions and health, popular concerns about radio frequency emissions may discourage the use of wireless devices, thereby impairing the Enlarged Group s ability to retain customers and attract new customers, or may result in restrictions on the location and operation of mobile communications sites by the Enlarged Group or the usage of the Enlarged Group s wireless technology. Such concerns could also lead to litigation against the Enlarged Group. Any restrictions on use or litigation could have an adverse effect on the operating results, business, financial condition and prospects of the Enlarged Group.

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PART III

INFORMATION ON EE

1. Overview

EE is the UK s largest mobile communications provider, with 30.9 million customers as at 31 December 2014 (31 December 2013: 30.8 million) and an estimated mobile subscriber market share of 32 per cent. (31 December 2013: 33 per cent.). EE operates exclusively in the UK and currently operates under the EE, Orange and T-Mobile brands. Under the Share Purchase Agreement, the Sellers will procure that EE will continue to benefit from existing Orange and T-Mobile brand licences for three calendar months following Completion. Before the end of that three month period, the Sellers, BT and EE will agree conditions for continued use of these brands by EE for certain periods thereafter until the legacy brands are totally extracted. Further details of this are set out in Part A of Part IV (*Summary of the Principal Terms of the Acquisition*) of this Circular.

EE was the first UK mobile network operator to launch a 4G network, introducing high speed consumer and business tariffs under the EE brand. The EE network provides customers with the widest and fastest 4G coverage in the UK (according to Ofcom). During 2014 EE continued to monetise 4G effectively, extending the range of 4G tariffs to include lower price points to increase the addressable market.

2. Business operations

The EE Group offers mobile services (consisting of voice, messaging and data services) and fixed voice and broadband services to both retail and business customers through multiple telecommunications technologies.

Mobile Services

Mobile services are sold under two types of arrangements. Pay as you go services (PAYG or prepaid services) typically involve the customer purchasing devices (such as handsets) at minimal or no discount at the point of connection and then pre-paying for products and services which are charged at different rates. For pay monthly services (PAYM or postpaid services), customers typically sign a fixed term contract for the use of products, services and equipment with a recurring charge being billed monthly in advance and additional services not included in the tariff bundle billed monthly in arrears. In return for a contractual commitment the customer receives a discounted device and a bundle of voice call minutes, text messages and a data allowance.

The EE Group offers a broad device portfolio to customers of each of the EE, Orange and T-Mobile brands. The range includes handsets, mobile broadband and wireless internet access devices, tablet computers and other computer products from many of the world s leading manufacturers. Many devices are specifically tailored to the EE Group s network to deliver enhanced performance of the device, connectivity and service, thereby optimising customer experience and maximising revenue-generation potential. The device portfolio is complemented by a wide range of accessories to support customers requirements.

Mobile Virtual Networks

The EE Group provides mobile services to additional subscribers by making its network available to a number of MVNOs permitting other mobile telecommunications operators to use EE s network to route calls to and from their customers. As at 31 December 2014 the EE Group has an MVNO portfolio of 3.7 million subscribers, which enables 31 MVNO brands to use the EE Group network, after signing on BT and The Post Office in 2014.

The EE Group s MVNO partners include Virgin Mobile, one of the largest MVNOs in the UK market based on number of connections and total revenue. The EE Group s MVNO arrangements with Virgin Mobile have been in place since 2004 and the exclusive provision of these services was extended on a long-term basis on 21 October 2013. Virgin Mobile purchases a fixed bundle of voice call, text message and data capability from the EE Group and uses the EE Group s retail billing services. The number of active Virgin Mobile customers (those that have made a telephone call in the last 30 days) as at 31 December 2014 was around 3.1 million.

Business Customers

The EE Group offers a wide range of mobile and value added services to business customers, ranging from small businesses to multi-national corporations.

The EE Group has built a strong partnering network and, pre-Acquisition, has access to Orange SA s and Deutsche Telekom AG s global roaming relationships, putting the EE Group in a position to benefit from international growth in machine-to-machine communications. Having adopted a multi-channel approach utilising both direct and indirect distribution, the EE Group has 1.9 million machine-to-machine connections at 31 December 2014, up 17 per cent. compared with 2013.

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The EE Group s target markets include: utilities, health, consumer electronics, automotive and insurance telematics. The EE Group has also developed managed service solutions to better target and serve the smart logistics and retail sectors through the end-to-end provision of network, devices and data services.

Other Business Areas

The EE Group also participates in other areas of the telecommunications and personal technology sector, such as fixed telephony and broadband, targeted marketing by text message or other mobile media, and mobile transactions such as contactless payment services.

Recent performance and growth

The EE Group continues to focus on attracting new customers, improving customer loyalty and reducing churn among existing customers (defined as the number of customers leaving the customer base during a period, divided by the average customer base). Over the course of 2014, the EE Group added 551,000 net postpaid customers (2013: 756,000), increasing the postpaid proportion of the customer base (excluding machine-to-machine and MVNO subscribers) to 61 per cent.. The prepaid customer base reduced by 8 per cent. in line with the industry shift towards postpaid. Meanwhile, churn was 1.2 per cent. per month for postpaid mobile customers in 2014 (2013: 1.1 per cent.), and 2.1 per cent. per month for total mobile customers in 2014 (2013: 2.6 per cent.).

A key distribution channel, Phones 4U Limited (Phones 4U), went into administration in September 2014. This triggered a number of events including the acquisition by EE of 58 former Phones 4U shops and Life Mobile, an MVNO, and the accelerated recognition of prepaid costs within the EE Group s 2014 results. The impact of losing this distribution channel has been mitigated by greater use of the EE Group s own channels and other indirect distributors.

3. History

Below is an overview of the key events in EE s history:

Date	**Event**
15 October 1987	Orange Personal Communications Services Limited incorporated.
10 May 1989	T-Mobile (UK) Limited incorporated.
September 2009	Orange SA and Deutsche Telekom AG announced their agreement to combine their respective UK mobile businesses, which operate under the brand names Orange and T-Mobile.
1 April 2010	Joint venture completed with T-Mobile (UK) Limited as the parent company of the combined entity.
1 July 2010	T-Mobile (UK) Limited renamed Everything Everywhere Limited.
30 October 2012	Everything Everywhere Limited becomes the first UK mobile network operator to launch 4G services commercially.
2 September 2013	Everything Everywhere Limited renamed EE Limited.
15 December 2014	Orange SA and Deutsche Telekom AG enter into exclusive negotiations with BT to sell EE.

4. Retail stores and customer service

The EE Group currently operates approximately 580 stores across the UK under the EE brand.

The EE Group also has a significant online presence offering mobile tariffs and devices, together with fixed broadband and voice services. Online customer service is also a key capability with customers able to self-serve via personalised portals.

During the year ended 31 December 2014, the EE Group employed an average of 7,078 people in its customer care and administration organisation. It operates centres in the UK in Darlington, North Tyneside, Plymouth, Doxford, Greenock and Merthyr Tydfil. The EE Group also partners with recognised specialist companies in the provision of customer service in the UK and internationally. In February 2014, the EE Group announced plans to deliver industry-leading customer service by increasing UK-based customer service resources, with the creation of over 1,000 new customer service roles in the UK over the next two years.

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EE also sells through indirect channels, including telecommunications specialists such as The Carphone Warehouse, as well as through general retail outlets such as ASDA and Argos.

5. Network information and information technology

The EE Group has the UK s biggest mobile network with around 20,000 base stations in the UK, which include 2G, 3G and 4G equipment supporting the EE, Orange and T-Mobile brands.

On 30 October 2012, the EE Group launched the UK s first 4G network using its existing 1800 MHz radio spectrum. As at 31 December 2014, the 4G network provided more than 80 per cent. outdoor population coverage, with double-speed 4G covering more than 60 per cent. of the population.

In 2013, the EE Group also successfully acquired 2 x 5 MHz of 800 MHz and 2 x 35 MHz of 2,600 MHz spectrum. The licence for this spectrum was issued by Ofcom on 1 March 2013. These spectrum bands are ideally suited for high speed 4G data services, allowing for speeds of 4 Mbps and above. This additional spectrum will help to support the continued rollout of the EE Group s 4G services.

On 18 December 2014, the EE Group and the three other UK mobile network operators reached an agreement with the UK Government to each provide 90 per cent. geographic coverage for voice and text messaging by the end of 2017.

Fixed broadband

On 14 April 2010, Orange Personal Communications Services Limited (OPCS) entered into a six year non-exclusive agreement with BT to: (i) outsource to BT the provision and operation of fixed telecommunications (i.e. land line services); (ii) provide broadband services to EE s customers; and (iii) migrate existing Orange broadband customers to a new broadband services platform operated by BT.

The EE Group has also outsourced the operation and management of the IT and network functions for fixed broadband to BT.

This agreement was novated on 1 November 2010 to EE following the transfer of the trade and assets of OPCS to EE on 1 July 2010.

Under the terms of the agreement, BT committed to provide next generation broadband services. As a result the EE Group launched fibre broadband services on 30 October 2012, enabling the EE Group s customers to take advantage of the greater speed and capacity afforded by fibre optics.

As at 31 December 2014, the EE Group s fixed broadband service had approximately 834,000 subscribers.

In October 2014, EETV was launched, consisting of an innovative TV smart box with an intuitive smartphone user interface and multi-record, multi-screen functionality, available to new and existing EE fixed broadband customers.

6. Joint ventures and contracts

Digital Mobile Spectrum Limited (DMSL)

DMSL is a joint venture between EE, Hutchison, Telefonica UK Limited and Vodafone Limited. DMSL was incorporated on 10 October 2012, with each of the four shareholders subscribing for one £1 ordinary share. The company was set up to undertake activities to mitigate potential interference to digital terrestrial television reception which may arise as a consequence of the use of 800 MHz spectrum, licensed following an auction in February 2013. It is a condition of the 800 MHz licences that the licensees undertake these mitigation activities through DMSL. For each 5 MHz paired block of 800 MHz spectrum awarded, the licensees are required to commit to contribute up to £30 million to cover the costs of DMSL. EE acquired 2 x 5 MHz of 800 MHz spectrum in the auction and was required to contribute up to a total of £30 million. By the end of 2014, EE had made total payments of £12 million.

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Mobile Broadband Network Limited (MBNL)

In December 2007, EE established a joint operation, MBNL, with Hutchison in which both companies share their respective mobile 3G radio access networks. The parties are committed to a long term agreement and, in February 2010, the term was extended to December 2031. In December 2013, an agreement setting out a five-year investment plan for MBNL was signed. The key principles of the joint operation are that:

- radio access network equipment is consolidated (i.e. one set of equipment is used to operate the two networks);
- 3G equipment and shared sites are owned (directly or indirectly) on a 50:50 basis and pre-defined cost sharing ratio; and
- Orange sites, retained in the course of the integration of the Orange and T-Mobile networks and owned by EE, will supplement the shared network.

There is also flexibility through unilateral deployment to deploy future technologies and capacity upgrades on an unshared basis (at each party s own cost).

Costs are generally shared between the parties on a 50:50 basis, however, EE does pay some additional costs for its 2G radio access network. The operating costs of the network include rent, rates, electricity and annual site maintenance. However, each party bears its own costs directly attributable to any non-shared sites. Transmission costs are provided on a lowest cost basis. In addition, MBNL charges the EE Group fees in relation to the management and use of the shared network.

MBNL does not own the network assets, other than the backhaul transmission assets and the microwave backhaul licences. MBNL holds microwave spectrum licences at 10 GHz, 28 GHz and 40 GHz for the backhaul transmission network (being the transport network which carries traffic between the mobile base stations and the control and switching elements located deeper in the network) and there is currently no other commitment to acquire or deploy any spectrum on a joint basis.

MBNL is a small organisation with approximately 150 employees, which manages the legacy T-Mobile and Hutchison network estate and outsourced suppliers, who maintain and support the networks. MBNL passes substantially all network operating costs to EE and Hutchison according to agreed cost sharing rules.

MBNL is funded by £20 million share capital, fully paid, and a revolving shareholder loan facility. Interest is based on LIBOR plus a margin of 1.75 per cent., paid quarterly. In 2012, the loan facility was extended for a further five years to 18 December 2017 and, in September 2012, the amount that may be drawn down from each of EE and Hutchison was increased to £186 million. As at 31 December 2014, the total amount drawn down against the shareholder loan provided by EE is £151 million.

Deutsche Telekom AG also provides a guarantee to Hutchison, to a maximum value of £750 million, in respect of EE s obligations as a shareholder and any liability incurred by EE under the MBNL joint operation. BT has agreed that it will use reasonable endeavours to replace and release Deutsche Telekom as guarantor in connection with the guarantee from Completion. If the guarantee is not replaced at Completion, BT will provide a back-to-back guarantee to Deutsche Telekom AG as part of the Acquisition and use reasonable endeavours to provide a replacement guarantee as soon as reasonably practicable after Completion. BT will not be required to obtain a bank guarantee to replace Deutsche Telekom s guarantee.

7. Regulation

The EE Group s activities are regulated in accordance with general UK law and sector specific regulation. Broadly speaking, the regulation of communications in the UK is derived from European law and the regulatory framework was updated in the UK in May 2011.

The primary regulator is Ofcom, which is responsible for both communications and radiocommunications regulation, pursuant to the Communications Act 2003 and the Wireless Telegraphy Act 2006.

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Ofcom s key regulatory instruments in relation to the EE Group s activities are: (i) significant rights to regulate the exercise of market power in relation to wholesale mobile voice termination rates; and (ii) the ability to regulate mobile spectrum licences.

The EE Group is also regulated by Phonepay Plus in respect of premium rate telecommunications services.

8. Pensions

The EE Group operates a defined contribution pension scheme and a defined benefit pension scheme.

Defined contribution pension scheme

This scheme is open to all EE employees. The pension cost for the defined contribution scheme, which represents contributions payable by the EE Group, amounted to £23 million for the year ended 31 December 2014 (2013: £18 million).

Defined benefit pension scheme

The defined benefit pension scheme was established on 1 March 2000 with benefits based on final remuneration and length of service. Assets are held in a separately administered trust.

The scheme was closed to future accrual from 30 June 2014, resulting in the pension liability being reduced by £28 million due to the removal of the link of future salary increases to accrued benefits. The impact has been recognised in the income statement as a past service credit in the period to 31 December 2014.

The last funding valuation of the scheme as at 31 December 2012 showed a deficit of around £130 million. The next funding valuation of the scheme will have an effective date of no later than 31 December 2015.

EE is currently paying deficit contributions of £20 million per year which, along with investment returns from return-seeking assets, is expected to make good this shortfall by 31 October 2018. Prior to the closure of the scheme, EE also paid contributions of 9.9 per cent. (from 1 January to 31 March 2014) and 13 per cent. (1 April to 30 June 2014) of pensionable salaries in respect of benefit accrual in the year.

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PART IV

SUMMARY OF THE PRINCIPAL TERMS OF THE ACQUISITION

Part A Share Purchase Agreement

On 5 February 2015, the Share Purchase Agreement was entered into between the Company, the Sellers, who hold 100 per cent. of the issued share capital of EE on a combined basis, Deutsche Telekom AG as guarantor of Deutsche Telekom and Orange SA as guarantor of Orange. Pursuant to the Share Purchase Agreement, the Sellers have conditionally agreed to sell, and the Company has conditionally agreed to acquire, the entire issued share capital of EE.

1. Purchase price

1.1 *Consideration adjustments*

Under the terms of the Share Purchase Agreement, BT will purchase the entire issued share capital of EE for a purchase price equivalent to £12.5 billion on a debt and cash free basis. The purchase price to be paid is subject to customary post-Completion adjustments to reflect the debt, cash, working capital and capex position of EE at Completion. Based upon EE s net debt as at 31 December 2014, adjusted for estimated other debt-like items, the consideration payable by BT will be satisfied by:

(a) the issue to Deutsche Telekom of around 1.2 billion new Ordinary Shares, equivalent to 12 per cent. of BT s share capital on an enlarged basis post-Acquisition;

(b) a residual cash payment to Deutsche Telekom of around £200 million based upon a reference price of 411.5 pence per Ordinary Share, being the closing price on 4 December 2014 (subject to further variation in accordance with the cap and collar protection mechanism described below);

(c) the issue to Orange of around 0.4 billion new Ordinary Shares, equivalent to 4 per cent. of BT s share capital on an enlarged basis post-Acquisition; and

(d) a residual cash payment to Orange of around £3.4 billion based upon a reference price of 411.5 pence per Ordinary Share (subject to further variation in accordance with the cap and collar protection mechanism described below).

The Consideration Shares will be issued at Completion, credited as fully paid and will rank *pari passu* in all respects with the existing Ordinary Shares, including the right to receive all dividends, distributions or any return of capital declared, made or paid after Completion.

1.2 *Cap and collar mechanism*

The Share Purchase Agreement contains a cap and collar protection mechanism which provides for an adjustment to the cash element of the consideration where there is a movement in the price of an Ordinary Share (measured by reference to the average Ordinary Share price in the 15 trading days before the date which is five Business Days before Completion) from the reference price set out above, subject to:

(a) a minimum share price per Ordinary Share of approximately 395.0 pence (being 4 per cent. below the reference price). A share price below this level would not result in further adjustment to the cash consideration and therefore the value of the Acquisition would fall below £12.5 billion; and

(b) a maximum share price per Ordinary Share of approximately 428.0 pence (being 4 per cent. above the reference price). A share price above this level would not result in further adjustment to the cash consideration and therefore the value of the Acquisition would increase above £12.5 billion.

If the cash element of the consideration due to Deutsche Telekom is estimated to be less than zero at Completion (as a result of EE s estimated adjusted net debt position as at Completion), BT can reduce the number of Ordinary Shares to be issued to Deutsche Telekom by such number as results in the cash consideration payable to Deutsche Telekom then being as near as possible to zero. In such circumstances, Deutsche Telekom would then receive less than 12 per cent. of BT s enlarged issued share capital as a result of the Acquisition.

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2. Conditions

Completion is conditional upon satisfaction or, where capable of being waived, waiver of the following Conditions prior to the Long Stop Date (or such later date as the parties may agree):

(a) passing the Acquisition Resolution;

(b) allotment of the Consideration Shares to the Sellers, subject only to their admission to listing and trading;

(c) the UK Listing Authority having approved the admission of the Consideration Shares to the Official List and the London Stock Exchange having approved admission of the Consideration Shares to trading with effect from Completion;

(d) clearance of the Acquisition by the CMA, meaning:

(i) clearance of the Acquisition by the CMA at Phase 1 unconditionally, or conditionally on BT giving remedies, which are at BT s sole discretion to agree (but in co-ordination and consultation with the Sellers); or

(ii) clearance of the Acquisition by the CMA at Phase 2 unconditionally, or conditionally on BT giving remedies, which are to be agreed by BT acting reasonably and in co-ordination and consultation with the Sellers, provided that BT shall not be required to give any remedy which would have a material adverse effect on BT or the EE Group, or would not be reasonable from a financial or strategic perspective, and in the event that BT agrees such remedies, the Sellers shall share the cost of such remedies by way of a reasonable reduction in the purchase price for the Acquisition;

(e) or, if the Acquisition is referred to the European Commission, clearance of the Acquisition by the European Commission, meaning;

(i) clearance of the Acquisition by the European Commission under Article 6(1)(b) of the European Union Merger Regulation unconditionally, or conditionally on BT giving remedies, which are at BT s sole discretion to agree (but in co-ordination and consultation with the Sellers); or

(ii) clearance of the Acquisition by the European Commission under Article 8(1) or 8(2) of the European Union Merger Regulation unconditionally, or conditionally on BT giving remedies, which are to be agreed by BT acting reasonably and in co-ordination and consultation with the Sellers, provided that BT shall not be required to give any remedy which would have a material adverse effect on BT or the EE Group, or would not be reasonable from a financial or strategic perspective, and in the event that BT agrees such remedies, the Sellers shall share the cost of such remedies by way of a reasonable reduction in the purchase price for the Acquisition;

(f) no EE material adverse change having occurred; and

(g) no BT material adverse change having occurred.

If the Acquisition Resolution is approved at the General Meeting and each of the other Conditions is satisfied (or, where capable of being waived, waived) prior to the Long Stop Date (or such later date as the parties may agree), the Company will be contractually obliged to proceed to Completion unless the Share Purchase Agreement is otherwise terminated.

BT expects the Acquisition to complete before the end of BT s 2015/16 financial year (on 31 March 2016).

3. Pre-Completion undertakings

3.1 *BT*

BT has agreed that until Completion or earlier termination of the Share Purchase Agreement, it shall:

(a) ensure at all times that its shares are admitted to the Official List and to trading on the London Stock Exchange;

(b) not undertake any share issuance or create any right to subscribe for any Ordinary Shares or share capital, or issue or create any right to subscribe for any other securities or equity interests convertible into Ordinary Shares or share capital (save in connection with any existing BT employee share plans);

(c) not announce, authorise, declare, make or pay any dividend other than ordinary course dividends payable in cash in accordance with its announced dividend policy;

(d) not implement any share buy-back or other return of capital, except in accordance with its existing ordinary course share buy-back programme;

(e) not implement any reorganisation or other demerger or spin-off;

(f) not take any other action which would affect the number of Ordinary Shares in issue or make any other shareholder distribution of income or capital or similar arrangement (other than the exceptions outlined above); or

(g) subject to customary exceptions, not solicit any takeover offer for BT or any similar transaction which would materially prejudice the likelihood of Completion.

As a result of the undertakings described above, BT will be unable to access the equity capital markets to raise additional capital until Completion or earlier termination of the Share Purchase Agreement.

3.2 ***EE***

The Sellers have agreed that until Completion or earlier termination of the Share Purchase Agreement, they shall procure that EE:

(a) carries on its business in the ordinary course and exercises such rights as it has to procure that the affairs of MBNL are carried on in the ordinary course; and

(b) does not, without the prior consent of BT (except in relation to certain projects of EE agreed with BT around the time of entry into the Share Purchase Agreement):

(i) make any material acquisitions or disposals of assets or properties;

(ii) enter into or alter any material contracts except in the ordinary course of business;

(iii) enter into or alter any existing material arrangements with the Sellers Groups;

(iv) incur any new material indebtedness or incur any new material guarantee obligations or, except in the ordinary course, indemnity obligations;

(v) agree to any change in the terms of the existing investment strategy or, except in limited circumstances, the funding basis of the EE defined benefit pension scheme;

(vi) agree any surrender of, or take any action which could prejudice the use of, the EE Group s tax losses;

(vii) enter into or settle any material litigation or other material dispute;

(viii) acquire any wireless spectrum;

(ix) make any fundamental changes to the network technologies or principal billing systems of the EE Group; and/or

(x) perform a number of further customary actions, including: changing the material general terms of employment of its employees; adopting or materially amending any employee benefit, bonus or profit sharing scheme; materially changing its pension and retirement arrangements for employees; declaring a dividend (except in accordance with EE s 2015 budget) which would result in the Deutsche Telekom cash consideration resulting from the Aquisition being less than zero; issuing or encumbering shares; or making changes to its accounting policies, constitutional documents or corporate group structure.

The Sellers have also agreed to customary standstill provisions prohibiting acquisitions of Ordinary Shares or the making of any takeover offer for BT prior to Completion, from which point the terms of the Relationship Agreement and Standstill and Lock-up Agreement shall apply.

4. Seller Warranties, Indemnities and Covenants

4.1 ***Warranties***

The Share Purchase Agreement contains customary warranties given by the Sellers, including in relation to authorisations, valid obligations, filings and consents for the entry of the Sellers into the Transaction Documents, and including in relation to the EE Group, its share capital, accounts and financial condition, material licences and approvals, compliance with laws, condition and sufficiency of its network and assets, tax, material contracts, related party arrangements, litigation, IP and IT systems, employees and benefit arrangements, pension schemes, real estate and ownership and conduct of the MBNL joint venture arrangement.

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4.2 ***Indemnities***

The Sellers have also agreed, amongst other things, to indemnify BT in the event that BT suffers loss as a result of certain regulatory fines being levied against BT or the EE Group, and against losses suffered by BT or the EE Group as a result of certain other investigations and disputes.

The warranties and indemnities given by the Sellers are subject to customary financial and other limitations.

4.3 ***Covenants***

The Share Purchase Agreement contains customary covenants restricting the Sellers from competing with EE s business for a period of three years following Completion (subject to customary exceptions for existing businesses and financial investments) and from soliciting employees of the EE Group for a period of two years following Completion (subject to customary exceptions).

The Share Purchase Agreement also contains a customary tax covenant in respect of liability for taxes due pre and post-Completion.

5. Company Warranties and Indemnity

The Share Purchase Agreement contains warranties given by the Company as to, amongst other things, its capacity and authority to enter into and perform its obligations under the Transaction Documents, compliance by the Company in all material respects with certain laws and regulations, the availability of financing for the cash element of the consideration for the Acquisition, the accuracy of its public filings, and there having been no material adverse change to its financial position since its last accounts date.

BT also agrees that it will indemnify the Sellers in the event that they suffer loss as a result of BT having taken certain actions in respect of the EE defined benefit pension scheme or the BT defined benefit pension scheme (but in relation to the BT Pension Scheme, only where Deutsche Telekom is identified as being connected to BT by virtue of the appointment of a Director to the Board by the Deutsche Telekom Group).

The warranties and indemnity given by BT are subject to customary financial and other limitations.

6. Other undertakings

Prior to Completion, the Sellers and BT will agree the scope and terms of any transitional services arrangements required after Completion, with a view to entering into separate transitional services agreements between EE, BT and each of the Sellers at Completion. The purpose of these transitional services agreements is to document any services that are currently provided by a party (or a member of its group) and that the recipient of those services wishes to continue to receive for a transitional period from Completion. Any services that a service recipient elects to continue to receive from Completion will be provided on the current terms or agreement applicable to the provision and receipt of those services. Unless otherwise agreed, the maximum term of each service will be between six and 18 months depending on the type of service.

Each Seller, as applicable, will procure that EE can continue to benefit from an existing Orange or T-Mobile brand licence for three calendar months following Completion. Prior to the date falling three calendar months after Completion, the Sellers (or the relevant members of their groups), BT, and EE will agree appropriate conditions for the continued use of the Orange or T-Mobile (as applicable) brands by EE following that date until the date falling 36 months (in the case of the T-Mobile brand) and 33 months (in the case of the Orange brand) thereafter. Such agreement will include appropriate modifications to the existing brand licences to reflect the change in ownership of EE, and continued use of the brands will be for the purpose of an orderly wind-down and extraction of the Orange and T-Mobile brands from EE s business and subject to the continued payment of royalties.

BT has also undertaken to Deutsche Telekom AG to provide, from Completion, a back-to-back guarantee of Deutsche Telekom AG s guarantee to Hutchison, to a maximum value of £750 million. Deutsche Telekom AG s existing arrangement guarantees EE s obligations in respect of any liability incurred by EE under the MBNL joint operation.

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7. Guarantee

Deutsche Telekom AG has agreed to guarantee the performance by Deutsche Telekom, and Orange S.A. has agreed to guarantee the performance by Orange, of their respective obligations under the Share Purchase Agreement.

8. Break fee

If the Board changes its recommendation that Shareholders vote in favour of the Acquisition prior to the vote being taken and Shareholders do not approve the Acquisition or if BT recommends an alternative transaction prior to Completion and the Acquisition does not proceed to Completion as a result, then BT shall pay a break fee of £250 million (in aggregate) to Deutsche Telekom and Orange.

9. Termination

In the event that the Conditions are not satisfied or, where capable of being waived, waived by the Long Stop Date (or such later date as the parties may agree), including where any remedies required by the CMA in order to obtain merger clearance are not reasonable, the Share Purchase Agreement will automatically terminate.

BT may terminate the Share Purchase Agreement prior to the Long Stop Date if the Acquisition Resolution is not approved.

The Sellers are entitled to terminate the Share Purchase Agreement prior to the Long Stop Date if the Board changes its recommendation that Shareholders vote in favour of the Acquisition prior to the vote being taken and Shareholders do not approve the Acquisition or if BT recommends an alternative transaction prior to Completion and the Acquisition does not proceed to Completion as a result.

10. Costs

The Company and the Sellers have each agreed to pay the costs and expenses incurred by them in connection with the preparation, negotiation, entering into and completion of the Transaction Documents and any other agreements in respect of the Acquisition. BT has agreed to bear any stamp duty or other transfer taxes in respect of the transfer of the shares of EE.

Part B Relationship Agreement

1. Relationship Agreement with Deutsche Telekom AG and Deutsche Telekom

At Completion, BT will enter into the Relationship Agreement with Deutsche Telekom AG and Deutsche Telekom, which will regulate aspects of the ongoing relationship between BT, Deutsche Telekom AG and the Deutsche Telekom Group.

The Relationship Agreement will terminate if (a) the Ordinary Shares are no longer listed on the premium listing segment of the Official List and traded on the London Stock Exchange s main market for listed securities or (b) the Deutsche Telekom Group ceases to be interested in more than three per cent. of the issued ordinary share capital of BT.

The Relationship Agreement will contain, among other things, undertakings from Deutsche Telekom AG that for such period as the Deutsche Telekom Group holds 10 per cent. or more of the issued share capital of BT:

(i) transactions and arrangements between BT and the Deutsche Telekom Group will be entered into on an arm s length basis and on normal commercial terms;

(ii)

neither it nor any member of the Deutsche Telekom Group will take any action that would have the effect of preventing BT from complying with its obligations under the Listing Rules; and

&n-indent:-15px">DJO Finance, LLC, Term Loan 3.24 to 3.28 05/20/14 2,955,499 453
Orthofix Holdings, Inc., Term Loan
6.75 09/22/13 449,024

17,593,536

Mining, Steel, Iron & Non-Precious Metals 0.1% 495
John Maneely Co., Term Loan
3.50 to 3.53 12/09/13 454,692

Natural Resources 0.1% 1,180
Western Refining, Inc., Term Loan
8.25 05/30/14 1,152,604

Non-Durable Consumer Products 3.6% 3,997
Amscan Holdings, Inc., Term Loan (a)
2.50 to 3.38 05/25/13 3,631,061 5,273
Huish Detergents, Inc., Term Loan
2.00 04/26/14 5,079,504 6,723
KIK Custom Products, Inc., Term Loan
2.54 to 5.28 06/02/14 to 11/30/14 4,049,050 2,708
Mega Brands, Inc., Term Loan (Canada)
9.75 07/26/12 1,557,143 9,895
Spectrum Brands, Inc., Term Loan
8.00 to 8.75 06/29/12 9,702,217

Van Kampen Senior Income Trust
Portfolio of Investments § October 31, 2009 (Unaudited) *continued*

Principal Amount (000)	Borrower	Coupon	Stated Maturity *	Value
	Non-Durable Consumer Products (continued)			
$ 2,200	Targus Group International, Inc., Term Loan (d)	10.75%	05/22/13	$ 660,000
3,955	Yankee Candle Co., Inc., Term Loan	2.25	02/06/14	3,702,753
				28,381,728
	Paper & Forest Products 1.1%			
2,400	Ainsworth Lumber Co, Ltd, Term Loan (a)	5.25	06/26/14	1,888,001
1,805	Georgia Pacific Corp., Term Loan	2.28 to 3.71	12/20/12 to 12/20/14	1,762,018
2,183	Tidi Products, LLC, Term Loan (f)	3.26 to 4.74	12/29/11 to 06/29/12	2,084,291
400	Verso Paper Holding, LLC, Term Loan (b)	6.73 to 7.48	02/01/13	138,532
7,375	White Birch Paper Co., Term Loan (Canada) (b)(d)	7.00	05/08/14	2,489,167
				8,362,009
	Pharmaceuticals 1.9%			
6,500	Mylan Laboratories, Inc., Term Loan	3.50 to 3.56	10/02/14	6,337,500
5,419	Nyco Holdings 2 ApS, Term Loan (Denmark)	2.53 to 3.28	12/29/14 to 12/29/15	5,024,488
3,500	Warner Chilcott, LLC, Term Loan	5.50 to 5.75	10/30/14 to 04/30/15	3,511,211
				14,873,199

Van Kampen Senior Income Trust
Portfolio of Investments § October 31, 2009 (Unaudited) *continued*

Principal Amount (000)	Borrower	Coupon	Stated Maturity *	Value
	Printing & Publishing 5.5%			
$ 4,038	Cygnus Business Media, Inc., Term Loan	9.75%	06/30/13	$3,997,847
2,354	Dex Media West, LLC, Term Loan (e)	7.00	10/24/14	2,079,468
11,260	Endurance Business Media, Inc., Term Loan (d)(f)	4.75 to 11.25	07/26/13 to 01/26/14	3,486,805
11,623	F&W Publications, Inc., Term Loan (d)	6.50	08/05/12 to 02/05/13	3,911,867
9,173	Gatehouse Media Inc., Term Loan	2.25	08/28/14	3,569,925
1,241	Idearc, Inc., Term Loan (d)(e)	6.25	11/17/14	567,497
1,586	Knowledgepoint 360 Group, LLC, Term Loan	3.68 to 7.43	04/14/14 to 04/13/15	1,089,148
1,656	MC Communications, LLC, Term Loan (b)(f)	6.75	12/31/12	948,973
3,066	MediaNews Group, Inc., Term Loan	6.74	12/30/10 to 08/02/13	948,574
3,254	Merrill Communications, LLC, Term Loan (b)	12.75 to 15.00	11/15/13	1,879,015
5,368	Network Communications, Inc., Term Loan	2.24 to 3.22	11/30/12	3,730,465
469	Proquest CSA, LLC, Term Loan	2.76 to 2.79	02/09/14	452,344
66,667	Tribune Co., Bridge Loan (d)(e)(f)	8.25	12/20/15	1,333,333
17,662	Tribune Co., Term Loan (d)(e)	5.25	06/04/14	8,367,168

Van Kampen Senior Income Trust
Portfolio of Investments § October 31, 2009 (Unaudited) *continued*

Principal Amount (000)	Borrower	Coupon	Stated Maturity *	Value
	Printing & Publishing (continued)			
$ 9,373	Yell Group PLC, Term Loan (United Kingdom)	2.53 to 3.28%	04/30/11 to 10/26/12	$ 6,818,457
				43,180,886
	Restaurants & Food Service 2.8%			
4,424	Advantage Sales & Marketing, Inc., Term Loan (a)	2.29	03/29/13	4,213,882
8,679	Aramark Corp., Term Loan (a)	2.12 to 2.16	01/27/14	7,981,263
3,084	Center Cut Hospitality, Inc., Term Loan	2.89	07/06/14	2,883,880
4,516	NPC International, Inc., Term Loan	2.00 to 2.04	05/03/13	4,296,050
2,565	Volume Services America, Inc., Term Loan	9.25	12/31/12	2,475,267
				21,850,342
	Retail Oil & Gas 0.5%			
4,184	The Pantry, Inc., Term Loan	1.75	05/15/14	3,966,686
	Retail Stores 2.7%			
3,491	Dollar General Corp., Term Loan	2.99 to 5.00	07/07/14	3,345,288
7,462	General Nutrition Centers, Inc., Term Loan	2.50 to 2.54	09/16/13	6,926,007
3,819	Guitar Center, Inc., Term Loan	3.75	10/09/14	3,184,073
5,062	Rite Aid Corp., Term Loan	6.00	06/04/14	4,758,686

Van Kampen Senior Income Trust
Portfolio of Investments § October 31, 2009 (Unaudited) *continued*

Principal Amount (000)	Borrower	Coupon	Stated Maturity *	Value
	Retail Stores (continued)			
$ 2,970	Sally Holdings, Inc., Term Loan	2.49 to 2.62%	11/16/13	$ 2,836,066
				21,050,120
	Telecommunications Local Exchange Carriers 1.7%			
3,342	Global Tel*Link Corp., Term Loan	9.00	02/14/13	3,283,732
4,990	Intelsat Corp., Term Loan	2.75	01/03/14	4,725,417
836	Orius Corp., LLC, Term Loan (c)(d)(e)(f)(g)	6.75	01/23/09	8,108
618	Orius Corp., LLC, Term Loan (c)(d)(e)(f)	7.25	01/23/10	5,996
1,166	Paetec Holding Corp., Term Loan	2.74	02/28/13	1,108,835
4,618	Sorenson Communications, Inc., Term Loan	2.75 to 7.24	08/16/13 to 02/16/14	4,357,024
				13,489,112
	Telecommunications Long Distance 0.7%			
6,017	Level 3 Communications, Inc., Term Loan	2.53 to 11.50	03/13/14	5,527,487
	Telecommunications Wireless 2.3%			
6,772	Asurion Corp., Term Loan (a)	3.24 to 3.25	07/03/14	6,439,612
4,057	CommScope, Inc., Term Loan	2.74 to 2.78	12/26/14	3,933,637
740	MetroPCS Wireless, Inc., Term Loan	2.50 to 2.75	11/04/13	696,639
6,818	NTELOS Inc., Term Loan	5.75	08/07/15	6,866,475
				17,936,363

Van Kampen Senior Income Trust
Portfolio of Investments § October 31, 2009 (Unaudited) *continued*

Principal Amount (000)	Borrower	Coupon	Stated Maturity *	Value
	Textiles & Leather 2.5%			
$ 5,959	Gold Toe Investment Corp., Term Loan	8.50 to 11.75%	10/30/13 to 04/30/14	$ 4,194,520
1,359	HanesBrands, Inc., Term Loan	5.03	09/05/13	1,367,410
4,650	HBI Branded Apparel Ltd., Inc., Term Loan	3.99	03/05/14	4,504,688
4,850	Levi Strauss & Co., Term Loan	2.50	03/27/14	4,474,125
3,345	Saint John Knits International, Inc., Term Loan	9.25	03/23/12	2,709,192
2,973	Varsity Brands, Inc., Term Loan	3.00 to 4.75	02/22/14	2,526,874
				19,776,809
	Transportation Cargo 0.2%			
948	Cardinal Logistics Management, Inc., Term Loan (b)(f)	12.50	09/23/13	652,104
926	JHCI Acquisitions, Inc., Term Loan	2.75	06/19/14	795,489
				1,447,593
	Utilities 11.7%			
1,647	Bicent Power, LLC, Term Loan	2.29	06/30/14	1,535,750
544	Boston Generating, LLC, Term Loan	2.53 to 2.72	12/20/13	388,200
4,957	BRSP, LLC, Term Loan	7.50	06/24/14	4,659,570
25,936	Calpine Corp., Term Loan	3.17	03/29/14	23,764,184
13,098	Firstlight Power Resources, Inc., Term Loan	2.81 to 4.81	11/01/13 to 05/01/14	11,560,790

Van Kampen Senior Income Trust
Portfolio of Investments § October 31, 2009 (Unaudited) *continued*

Principal Amount (000)	**Borrower**	**Coupon**	**Stated Maturity ***	**Value**
	Utilities (continued)			
$ 5,500	Longview Power, LLC, Term Loan	2.56%	02/28/14	$ 4,950,000
187	Mach Gen, LLC, Term Loan	2.28	02/22/13	174,300
14,889	NRG Energy, Inc., Term Loan	1.99 to 2.03	02/01/13	14,045,576
1,772	NSG Holdings, LLC, Term Loan	1.80	06/15/14	1,683,008
6,113	Primary Energy Operating, LLC, Term Loan	11.00	02/24/10	5,899,367
15,205	Texas Competitive Electric Holdings Co., LLC, Term Loan	3.74 to 3.78	10/10/14	11,727,944
260	TPF Generation Holdings, LLC, Revolving Credit Agreement	2.29	12/15/11	248,062
7,779	TPF Generation Holdings, LLC, Term Loan	2.24 to 4.53	12/15/13 to 12/15/14	6,984,838
4,419	USPF Holdings, LLC, Term Loan	2.00	04/11/14	4,197,581
				91,819,170
Total Variable Rate Senior Loan Interests 155.4%**				1,218,187,410
	Notes 3.1%			
	Chemicals, Plastics & Rubber 0.1%			
1,048	Wellman, Inc. (b)(f)	5.00	01/30/19	1,048,000

Van Kampen Senior Income Trust
Portfolio of Investments § October 31, 2009 (Unaudited) *continued*

Principal Amount (000)	Borrower	Coupon	Stated Maturity *	Value
	Construction Material 1.0%			
$ 5,800	Builders FirstSource, Inc. (i)	4.69%	02/15/12	$ 5,626,000
2,700	Compression Polymers Corp. (i)	7.87	07/01/12	2,281,500
				7,907,500
	Containers, Packaging & Glass 0.2%			
1,500	Berry Plastics Group, Inc. (i)	5.03	02/15/15	1,387,500
	Ecological 0.0%			
560	Environmental Systems Products Holdings, Inc. (f)	18.00	03/31/15	0
	Healthcare 0.9%			
6,167	Apria Healthcare Group, Inc.	11.25	11/01/14	6,706,250
	Hotels, Motels, Inns & Gaming 0.3%			
2,000	Wynn Las Vegas, LLC	6.63	12/01/14	1,910,000
	Paper & Forest Products 0.1%			
1,500	Verso Paper Holding, LLC (i)(j)	4.23	08/01/14	990,000
	Telecommunications Local Exchange Carriers 0.5%			
4,500	Qwest Corp. (i)	3.55	06/15/13	4,207,500
Total Notes 3.1%				24,156,750

Equities 0.4%

Building Materials Holding Corp. (Warrants for 27,689 common shares, Expiration date 09/30/15, Acquired 10/09/08, Cost $0) (f)(k)(l)	0

Van Kampen Senior Income Trust
Portfolio of Investments § October 31, 2009 (Unaudited) *continued*

Description	Value
Equities (continued)	
Comdisco Holdings Co., Inc. (7 common shares, Acquired 09/04/08, Cost $68) (k)(l)	$ 59
CTM Media Holdings, Inc. (2,543 common shares, Acquired 09/15/09, Cost $35,444) (k)	1,908
Cygnus Business Media Inc. (5,882 common shares, Acquired 09/29/09, Cost $1,251,821) (f)(h)(k)	1,251,821
Environmental Systems Products Holdings, Inc. (9,333 common shares, Acquired 09/27/07, Cost $0) (f)(k)(l)	0
Environmental Systems Products Holdings, Inc. (4,275 preferred shares, Acquired 09/27/07, Cost $106,875) (f)(k)(l)	0
Euramax International, Inc. (4,207 common shares, Acquired 07/09/09, Cost $4,543,100) (f)(k)	136,731
Gentek, Inc. (Canada) (Warrants for 821 common shares, Expiration date 11/10/10, Acquired 10/17/06, Cost $0) (k)	41,707
IAP Worldwide Services, Inc. (Warrants for 17,576 common shares, Expiration date 06/11/15, Acquired 06/18/2008, Cost $0) (f)(k)(l)	0
IAP Worldwide Services, Inc. (Warrants for 39,841 common shares, Expiration date 06/12/15, Acquired 06/18/2008, Cost $0) (f)(k)(l)	0
IDT Corp. (7,632 common shares, Acquired 01/29/04, Cost $0) (k)	29,917
MC Communications, LLC (333,084 common shares, Acquired 07/08/09, Cost $0) (f)(k)	0
Newhall Holding Co., LLC (343,321 common shares, Acquired 08/24/09, Cost $3,096,884) (k)	635,144
Safelite Realty (28,448 common shares, Acquired 10/26/00, Cost $0) (f)(k)(l)	0
Vitruvian Exploration, LLC (40,110 common shares, Acquired 10/19/09, Cost $1,717,401) (f)(k)	288,792

Van Kampen Senior Income Trust
Portfolio of Investments § October 31, 2009 (Unaudited) *continued*

Description		Value
Equities (continued)		
WCI Communities, Inc. (6,756 common shares, Acquired 09/23/09, Cost $759,755) (k)	$	472,920
Wellman, Inc. (1,048 common shares, Acquired 02/12/09 & 06/16/09, Cost $2,941,862) (f)(k)		497,800
Total Equities 0.4%		3,356,799
Total Long-Term Investments 158.9%		
(Cost $1,548,410,997)		1,245,700,959
Time Deposit 1.3%		
State Street Bank & Trust Co. ($10,002,530 par, 0.01% coupon, dated 10/31/09, to be sold on 11/02/09 at $10,002,536) (a) (Cost $10,002,530)		10,002,530
Total Investments 160.2%		
(Cost $1,558,413,527)		1,255,703,489
Borrowings (13.6%)		(107,000,000)
Preferred Shares (including accrued distributions) (44.7%)		(350,067,115)
Liabilities in Excess of Other Assets (1.9%)		(14,571,423)
Net Assets 100.0%	$	784,064,951

Percentages are calculated as a percentage of net assets applicable to common shares.

(a) All or a portion of this security is designated in connection with unfunded loan commitments.

(b) All or a portion of this security is payment-in-kind.

(c) This borrower is currently in liquidation.

(d) This Senior Loan interest is non-income producing.

(e) This borrower has filed for protection in federal bankruptcy court.

(f) Market value is determined in accordance with procedures established in good faith by the Board of Trustees.

(g) Senior loan is past due.

(h) Affiliated company.

(i) Variable rate security. Interest rate shown is that in effect at October 31, 2009.

Van Kampen Senior Income Trust
Portfolio of Investments § October 31, 2009 (Unaudited) *continued*

(j) 144A-Private Placement security which is exempt from registration under Rule 144A of the Securities Act of 1933, as amended. This security may only be resold in transactions exempt from registration which are normally those transactions with qualified institutional buyers.

(k) Non-income producing security.

(l) Restricted security. Securities were acquired through the restructuring of senior loans. These securities are restricted as they are not allowed to be deposited via the Depository Trust Company. If at a later point in time, the company wishes to register, the issuer will bear the costs associated with registration.

* Senior Loans in the Trust s portfolio generally are subject to mandatory and/or optional prepayment. Because of these mandatory prepayment conditions and because there may be significant economic incentives for a Borrower to prepay, prepayments of Senior Loans in the Trust s portfolio may occur. As a result, the actual remaining maturity of Senior Loans held in the Trust s portfolio may be substantially less than the stated maturities shown. Although the Trust is unable to accurately estimate the actual remaining maturity of individual Senior Loans, the Trust estimates that the actual average maturity of the

Senior Loans held in its portfolio will be approximately 18-24 months.

** Senior Loans in which the Trust invests generally pay interest at rates which are periodically redetermined by reference to a base lending rate plus a premium. These base lending rates are generally (i) the lending rate offered by one or more major European banks, such as the London Inter-Bank Offered Rate (LIBOR), (ii) the prime rate offered by one or more major United States banks or (iii) the certificate of deposit rate. Senior Loans are generally considered to be restricted in that the Trust ordinarily is contractually obligated to receive approval from the Agent Bank and/or Borrower prior to the

disposition of a
Senior Loan.

Ratings Allocation as of 10/31/09 (Unaudited)

BBB/Baa	4.3%
BB/Ba	35.9%
B/B	31.4%
CCC/Caa	8.0%
CC/Ca	0.2%
C/C	0.8%
Non-Rated	19.4%

Ratings allocations are as a percentage of long-term debt obligations. Ratings allocations based upon ratings as issued by Standard and Poor s and Moody s, respectively. Bank Loans rated below BBB by Standard and Poor s or Baa by Moody s are considered to be below investment grade.

Van Kampen Senior Income Trust
Portfolio of Investments § October 31, 2009 (Unaudited) *continued*
Swap agreements outstanding as of October 31, 2009:
Credit Default Swaps

Counterparty	Reference Entity	Buy/Sell Protection	Pay/ Receive Fixed Rate	Expiration Date	Notional Amount (000)	Upfront Payments	Value	Credit Rating of Reference Entity *
Goldman Sachs International	Calpine Corp.	Sell	5.000%	03/20/10	$ 1,500	$ (165,000)	$ 13,003	B
Goldman Sachs International	Calpine Corp.	Sell	5.000	03/20/11	2,000	(65,000)	(28,774)	B
Goldman Sachs International	Texas Competitive Electric Holdings Co., LLC	Sell	2.850	06/20/10	5,000	0	(149,346)	B-
Goldman Sachs International	Texas Competitive Electric Holdings Co., LLC	Sell	5.000	06/20/10	3,000	(97,500)	(43,750)	B-
Total Credit Default Swaps						$ (327,500)	$ (208,867)	
Swap Collateral Pledged to Counterparty								
Goldman Sachs International							50,000	
Total Swap Agreements							$ (158,867)	

* Credit rating as issued by Standard and Poor s (Unaudited).

Security Valuation The Trust s Senior Loans and notes are valued by the Trust following valuation guidelines established and periodically reviewed by the Trust s Board of Trustees. Under the valuation guidelines, Senior Loans and notes for which reliable market quotes are readily available are valued at the mean of such bid and ask quotes. Where reliable market quotes are not readily available, Senior Loans and notes are valued, where possible, using independent market indicators provided by independent pricing sources approved by the Board of Trustees. Other Senior Loans and notes are valued by independent pricing sources approved by the Board of Trustees based upon pricing models developed, maintained and operated by those pricing sources or valued by Van Kampen Asset Management (the Adviser) by considering a number of factors including consideration of market indicators, transactions in instruments which the Adviser believes may be comparable (including comparable credit quality, interest rate, interest rate redetermination period and maturity), the credit worthiness of the Borrower, the current interest rate, the period until next interest rate redetermination and the maturity of such Senior Loan. Consideration of comparable instruments may include commercial paper, negotiable certificates of deposit and short-term variable rate securities which have adjustment periods comparable to the Senior Loans in the Trust s portfolio. The fair value of Senior Loans are reviewed and approved by the Trust s Valuation Committee and the Board of Trustees. Credit default swaps are valued using market quotations obtained from brokers. Equity securities are valued on the basis of prices furnished by pricing services or

Van Kampen Senior Income Trust
Portfolio of Investments § October 31, 2009 (Unaudited) *continued*
as determined in good faith by the Adviser under the direction of the Board of Trustees. Short-term securities with remaining maturities of 60 days or less are valued at amortized cost, which approximates fair value. Short-term loan participations are valued at cost in the absence of any indication of impairment. The Trust adopted the provisions of the FASB Staff Position Paper No. FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45* (FSP FAS 133-1 and FIN 45-4), effective November 30, 2008. FSP FAS 133-1 and FIN 45-4 requires the seller of credit derivatives to provide additional disclosure about its credit derivatives.
The Trust may enter into credit default swap contracts, a type of credit derivative, for hedging purposes or to gain exposure to a credit or index of credits in which the Trust may otherwise invest. A credit default swap is an agreement between two parties to exchange the credit risk of an issuer or index of issuers. A buyer of a credit default swap is said to buy protection by paying periodic fees in return for a contingent payment from the seller if the issuer has a credit event such as bankruptcy, a failure to pay outstanding obligations or deteriorating credit while the swap is outstanding. A seller of a credit default swap is said to sell protection and thus collects the periodic fees and profits if the credit of the issuer remains stable or improves while the swap is outstanding. The seller in a credit default swap contract would be required to pay an agreed-upon amount to the buyer in the event of an adverse credit event of the issuer. This agreed-upon amount approximates the notional amount of the swap as disclosed in the table following the Portfolio of Investments and is estimated to be the maximum potential future payment that the seller could be required to make under the credit default swap contract. In the event of an adverse credit event, the seller generally does not have any contractual remedies against the issuer or any other third party. However, if a physical settlement is elected, the seller would receive the defaulted credit and, as a result, become a creditor of the issuer.
The current credit rating of each individual issuer is listed in the table following the Portfolio of Investments and serves as an indicator of the current status of the payment/performance risk of the credit derivative. Alternatively, for credit default swaps on an index of credits, the quoted market prices and current values serve as an indicator of the current status of the payment/performance risk of the credit derivative. Generally, lower credit ratings and increasing market values, in absolute terms, represent a deterioration of the credit and a greater likelihood of an adverse credit event of the issuer.
Credit default swaps may involve greater risks than if a Trust had invested in the issuer directly. Credit default swaps are subject to general market risk, counterparty risk and credit risk. Swap agreements are not entered into or traded on exchanges and there is no central clearing or guaranty function for swaps. Therefore, swaps are subject to the risk of default or non-performance by the counterparty. If there is a default by the counterparty to a swap agreement, the Trust will have contractual remedies pursuant to the agreements related to the transaction. Counterparties are required to pledge collateral daily (based on the valuation of each swap) on behalf of the Trust with a value approximately equal to the amount of any unrealized gain. Reciprocally, when the Trust has an unrealized loss on a swap contract, the Trust has instructed the custodian to pledge cash or liquid securities as collateral with a value approximately equal to the amount of the unrealized loss. Collateral pledges are monitored and subsequently adjusted if and when the swap valuations fluctuate. Cash collateral is disclosed in the table following the Portfolio of Investments. For cash collateral received, the Trust pays a monthly fee to the counterparty based on the effective rate for Federal Funds.
Fair Value Measurements Financial Accounting Standards Board Accounting Standards Codification (ASC) 820 *Fair Value Measurements and Disclosures* (ASC 820) (formerly known as FAS 157) defines fair value as the price that the Trust would receive to sell an investment or pay to transfer a liability in an orderly transaction with an independent buyer in the principal market, or in the absence of a principal market the most advantageous market for the investment or liability. ACS 820 establishes a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in pricing an asset or liability developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity s own assumptions about the assumptions market participants would use in pricing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the value of the Trust s

investments. The inputs are summarized in the three broad levels listed below.

Level 1 quoted prices in active markets for identical investments

Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

Level 3 significant unobservable inputs (including the Trust s own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Van Kampen Senior Income Trust
Portfolio of Investments § October 31, 2009 (Unaudited) *continued*
The following is a summary of the inputs used as of October 31, 2009 in valuing the Trust s investments carried at value.

Investment	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Total
Investments in an Asset Position:				
Variable Rate Senior Loan Interests	$	$1,199,189,556	$18,997,854	$1,218,187,410
Notes		23,108,750	1,048,000	24,156,750
Equities				
Buildings & Real Estate	1,108,064			1,108,064
Chemicals, Plastics & Rubber			497,800	497,800
Diversified Manufacturing			136,731	136,731
Finance	59			59
Natural Resources			288,792	288,792
Paper & Forest Product	41,707			41,707
Printing & Publishing			1,251,821	1,251,821
Telecommunications - Local Exchange Carriers	31,825			31,825
Short-term Investments		10,002,530		10,002,530
Credit Default Swap		13,003		13,003
Unfunded Commitments		11,302		11,302
Total Investments in an Asset Position	$1,181,655	$1,232,325,141	$22,220,998	$1,255,727,794
Investments in a Liability Position:				
Unfunded Commitments	$	$ (8,696,949)	$	$ (8,696,949)
Credit Default Swap		(221,870)		(221,870)
Total Investments in a Liability Position	$	$ (8,918,819)	$	$ (8,918,819)

Van Kampen Senior Income Trust
Portfolio of Investments § October 31, 2009 (Unaudited) *continued*
Following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining value:

	Investments in Loans and Securities								
					Equities				
	Variable Rate Senior Loan Interests	Notes	Chemicals, Plastics & Rubber	Diversified Manufacturing	Hotels, Motels, Inns & Gaming	Natural Resources	Printing & Publishing	Total	Unfur Commit
ance as of 7/31/09	$ 26,003,689	$ 1,048,000	$ 611,330	$ 214,562	$ 15,250	$	$	$ 27,892,831	$ (6,9
rued ounts/Premiums	17,027							17,027	
ized Gain/Loss	(1,884,752)				54,880			(1,829,872)	
nge in Unrealized reciation/Depreciation	(68,563)		(113,530)	(77,831)	(15,250)	(1,428,609)		(1,703,783)	6,9
Purchases/Sales	1,877,768				(54,880)	1,717,401	1,251,821	4,792,110	
Transfers In and/or of Level 3*	(6,947,315)							(6,947,315)	
ance as of 10/31/09	$ 18,997,854	$ 1,048,000	$ 497,800	$ 136,731	$	$ 288,792	$ 1,251,821	$ 22,220,998	$
Change in Unrealized Appreciation/Depreciation from investments still as of 10/31/09								$ (3,599,885)	$

* The value of Net Transfers In and/or Out of Level 3 was measured using the market value as of the beginning of the period for transfers in and the market value as of the end of the period for transfers out.

Item 2. Controls and Procedures.
(a) The Trust s principal executive officer and principal financial officer have concluded that the Trust s disclosure controls and procedures are sufficient to ensure that information required to be disclosed by the Trust in this Form N-Q was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, based upon such officers evaluation of these controls and procedures as of a date within 90 days of the filing date of the report.
(b) There were no changes in the Trust s internal control over financial reporting that occurred during the registrant s fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Trust s internal control over financial reporting.
Item 3. Exhibits.
(a) A certification for the Principal Executive Officer of the registrant is attached hereto as part of EX-99.cert.
(b) A certification for the Principal Financial Officer of the registrant is attached hereto as part of EX-99.cert.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.
(Registrant) Van Kampen Senior Income Trust

By:	/s/ Edward C. Wood III
Name:	Edward C. Wood III
Title:	Principal Executive Officer
Date:	December 17, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By:	/s/ Edward C. Wood III
Name:	Edward C. Wood III
Title:	Principal Executive Officer
Date:	December 17, 2009

By:	/s/ Stuart N. Schuldt
Name:	Stuart N. Schuldt
Title:	Principal Financial Officer
Date:	December 17, 2009