

# Corporate governance

The directors consider that throughout the year BT has fully complied with the *Code of Best Practice* published by the *Committee on the Financial Aspects of Corporate Governance* (the “Cadbury Committee”) and Section A of the best practice provisions of the Stock Exchange Listing Rules introduced following the publication of *Directors’ Remuneration – Report of a Study Group chaired by Sir Richard Greenbury* (the “Greenbury Report”), except in respect of non-executive directors’ remuneration. This is explained on page 36.

## The Board

The Board meets every month, except August. Its principal focus is the overall direction and control of the group. Key matters, such as the group’s strategic plans, annual operating plan and budget and the company’s operating and financial performance, are reserved for the Board to approve or monitor.

BT aims to have the Board comprise approximately two-thirds non-executive directors. Four of the current non-executive directors are independent of the management of BT either being free from any business or other relationship which could materially interfere with the exercise of their judgement or not previously involved in the management of BT. The three new non-executive directors joining the Board are all independent. Between them the non-executive directors bring experience at a senior level of international business operations, marketing, doing business in the key markets in which the group now operates and international affairs.

The non-executive directors provide a strong independent element on the Board, with Sir Colin Marshall, Deputy Chairman, as the senior independent member. However, the Board operates as a single team.

Non-executive directors are normally appointed initially for three years. Towards the end of that period the Board will consider whether to continue the appointment, which will then become terminable on twelve months’ notice from either BT or the director. Appointments will be reviewed again by the Board before the end of the sixth year. Normally, appointments will be for a maximum of ten years. The Deputy Chairman’s contract was renewed for a second three-year term from 1 April 1998. It may be terminated on twelve months’ notice. Malcolm Argent’s contract is for a one-year term ending on 31 December 1998. Helen Alexander’s, Neville Isdell’s and Sir John Weston’s contracts will be for an initial three-year term.

All directors are required by the company’s articles of association to be elected by shareholders at the first annual general meeting after their appointment. One-third of other directors must seek re-election by the shareholders each year. In effect, this means directors are re-elected every three years.

The executive directors have service agreements which are reviewed by the *Remuneration Committee*. Information about the periods of these contracts is in the report on directors’ remuneration.

The Board has agreed and established a procedure for directors, in furtherance of their duties, to take independent professional advice if necessary, at the company’s expense. In addition, all directors have access to the advice and services of the Company Secretary, the removal of whom would be a matter for the whole Board. He advises the Board on appropriate procedures for the management of its meetings and duties and the implementation of corporate governance and compliance in the group.

On appointment, directors receive appropriate information about BT, such as a description of the Board’s role and the powers which have been delegated to the company’s senior managers and management committees and latest financial information about the group. This is supplemented by meetings with members of the *Group Executive Committee* and other key senior executives, such as the head of the department which manages and advises on BT’s regulatory obligations. Throughout their period in office this information is up-dated as BT’s business, management structure or the regulatory environment in which it operates changes. This can include further meetings with senior BT executives. Directors are also advised on appointment of their legal and other obligations as a director of a listed company, both in writing and, if they wish, through face-to-face meetings with the Company Secretary. They are reminded of these obligations each year.

Procedures exist to ensure directors receive information at least four working days before each Board meeting. Papers must comply with guidelines about content and presentation.

## Principal Board committees

The *Group Executive Committee* is chaired by the Chief Executive, Sir Peter Bonfield. The other members are the Group Finance Director, the Group Managing Director

BT UK, the President and Chief Executive Officer BT Global, the heads of BT UK's customer-facing divisions and the network and systems division, the Secretary and Chief Legal Adviser, the Group Personnel Director, the executive responsible for developing the group's strategy and plans and the head of the group's corporate communications team. The Committee develops the group's strategy, for Board approval, and oversees its implementation. It also finalises, before Board approval, annual plans and budgets, reviews operational activities and agrees and monitors group-wide policies, where these are not reserved to the Board.

The *Nominating Committee* of the Chairman, Deputy Chairman and four other non-executive directors ensures the Board has an appropriate balance of expertise and ability among the non-executive directors. For this purpose it has agreed, and regularly reviews, a profile of the required skills and attributes. This profile is used to assess the suitability as non-executive directors of candidates put forward by the directors and outside consultants. Candidates short-listed for appointment are met by the Committee before it recommends an appointment to the Board.

The Committee also assesses candidates for executive directorships before it recommends an appointment.

The *Audit Committee*, consisting solely of non-executive directors, is chaired by Sir Colin Marshall. Its terms of reference include reviewing BT's internal controls and published financial reports for statutory compliance and against standards of best practice, and recommending appropriate disclosure to the Board. It also reviews annually the services and performance of the company's auditors, monitors their non-audit work to ensure that an objective and professional relationship is maintained and recommends to the Board their fees. The Group Finance Director and the Secretary and Chief Legal Adviser attend these meetings. Each year, the Committee sets aside time to seek the views of the company's auditors in the absence of executives.

The *Remuneration Committee* consists solely of independent non-executive directors and is chaired by Sir Colin Marshall. Further details about the Committee are included in the report on directors' remuneration.

### **Internal financial control**

The directors are responsible for the group's systems of internal financial control. Such systems can provide only reasonable and not absolute assurance against material financial misstatement or loss. Key elements are:

- Formal policies and procedures are in place, including the documentation of key systems and rules relating to the delegation of authorities, which allow the monitoring of controls and restrict the unauthorised use of the group's assets.
- Experienced and suitably qualified staff take responsibility for important business functions. Annual appraisal procedures have been established to maintain standards of performance.
- Forecasts and budgets are prepared which allow management to monitor the key business and financial activities and risks and the progress towards financial objectives set for the year and the medium term; monthly management accounts are prepared promptly providing relevant, reliable and up-to-date financial and other information; significant variances from budget are investigated as appropriate.
- All investment projects are subject to formal authorisation procedures. The Board considers major investment projects, with other projects being approved by the *Group Investment Committee* (a sub-committee of the *Group Executive Committee*) or senior management within delegated authorities approved and reviewed by the Board.
- The *Audit Committee* reviews reports from management, from the internal auditors and from the external auditors, to provide reasonable assurance that control procedures are in place and are being followed.
- Formal procedures have been established for instituting appropriate action to correct weaknesses identified from the above reports.

The *Audit Committee* has reviewed the effectiveness of the systems of internal financial control in existence in the group for the year ended 31 March 1998 and for the period up to the date of approval of the financial statements.

### **Relations with shareholders**

Senior executives, led by the Chief Executive and Group Finance Director, hold meetings with the company's

principal institutional shareholders to discuss the company's strategy, financial performance and, as and when necessary, its senior executive remuneration policies and plans. Contact with institutional shareholders (and financial analysts, brokers and the press) is controlled by written guidelines to ensure the protection of share price sensitive information which has not already been made available generally to the company's shareholders.

The company's policy is to give shareholders the opportunity to vote on every substantially different issue by proposing a separate resolution for each issue. The Board's opinion is that the re-election and fees of the auditors are inter-related issues and should therefore be dealt with by one resolution. Changes to the articles of association are being proposed this year. These are being dealt with in a single resolution as changes to the company's constitution are a single issue.

It is our policy for all directors to attend the AGM. Whilst, because of ill health or other pressing reasons, this may not always be achievable, in normal circumstances this means the chairman of the *Audit* and *Remuneration Committees* is at the AGM and is available to answer questions referred to him by the Chairman.

BT's practice is to post the Annual Report and Notice of AGM, given the large number of shareholders, in the most cost-effective manner. We aim to give as much notice as possible and at least 21 days, as required by our articles of association.

#### **Statement of BT Business Practice**

BT's policy is to achieve best practice in our standards of business integrity for all of our activities around the world. To reinforce our determination to live up to these standards BT has adopted a *Statement of Business Practice* which sets out the principles the group will observe. A copy is available to every employee. We also require our agents and contractors to apply these principles when representing BT.

#### **Pension fund**

BT's main pension fund – the BT Pension Scheme – is not controlled by the Board, but by trustees, who are company and union nominees, with an independent chairman. The trustees look after the assets of the pension fund, which are held separately from those of the company. The pension scheme funds can only be used in accordance with its rules and for no other purpose.

#### **Reporting**

A statement by the directors of their responsibilities for preparing the financial statements is included on page 41.

A report to the company by the auditors, Coopers & Lybrand, on corporate governance matters is set out on page 29.