

ITEM 9 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information set forth under the heading “Financial Review” on pages 15 to 25 of the 1998 Report and Accounts contained in the company’s Report on Form 6-K dated 9 June 1998 is incorporated herein by reference.

ITEM 9A – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information set forth under the headings “Treasury policy” and “Capital resources and foreign currency exposure” on pages 21 and 22 of the 1998 Report and Accounts contained in the company’s Report on Form 6-K dated 9 June 1998 is incorporated herein by reference.

ITEM 10 – DIRECTORS AND OFFICERS OF REGISTRANT

The information set forth under the headings “Board of Directors” on pages 26 and 27; “Report of the directors” on page 28; and, “Corporate Governance – the Board” and “Corporate Governance – Principal Board committees” on pages 30 and 31 of the 1998 Report and Accounts contained in the company’s Report on Form 6-K dated 9 June 1998 is incorporated herein by reference.

The business address of each of the directors of the company is BT Centre, 81 Newgate Street, London EC1A 7AJ, England. The executive directors are the executive officers of the company.

The Articles provide that there shall not be less than four directors (no maximum number has been fixed). The Articles also currently require that the Chairman or other chief executive officer be a British citizen within the meaning of the British Nationality Act 1981. A resolution will be put to the Annual General Meeting of the company to be held in July 1998 to remove this provision.

All directors are required to retire by rotation. All directors are also subject to the general corporate law requirements concerning the removal of directors. One-third of the directors (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) – excluding any director appointed by the directors since the last Annual General Meeting – are required to retire from office by rotation at each Annual General Meeting and are eligible to be re-elected by the shareholders. The directors to retire are selected on the basis of time in office since their last election.

Any director appointed by the directors is required to retire at the next following Annual General Meeting and is then eligible for election, but is not taken into account in determining which directors are to retire by rotation at such meeting.

Executive directors' service agreements

All of the executive directors have entered into service agreements with the company. The dates of commencement of their initial service agreements and expiration of their current service agreements are as stated below:

Executive director	Commencement date of initial service agreement	Expiration of current service agreement
Sir Iain Vallance	6 August 1984	(a)
Sir Peter Bonfield	1 January 1996	31 December 1999 (b)
Robert P. Brace	1 October 1993	(c)
William Cockburn	1 April 1998	30 September 1999 (d)

- (a) Terminable on twelve months' notice by the company or Sir Iain. However, Sir Iain takes up a part-time role as Chairman of BT from 31 July 1998 and a revised contract is currently being prepared.
- (b) The initial term of Sir Peter Bonfield's contract has been extended to 31 December 1999. The contract can be terminated by the company or Sir Peter giving twelve months' notice expiring after 31 December 1999.
- (c) Terminable on twelve months' notice by the company or Mr Brace.
- (d) The contract can be terminated by the company or Mr Cockburn giving twelve months' notice expiring after 30 September 1999.

Non-executive directors' contracts of appointment

All the non-executive directors have contracts of appointment and are normally appointed initially for three years. At the end of that period, the Board considers whether to continue the appointments, which then generally become terminable on twelve months' notice from the company or the director.

The dates of commencement and expiration of non-executive directors' contracts are as stated below:

Non-executive director	Commencement date of initial contract	Expiration date of current contract
Sir Colin Marshall	1 April 1995	31 March 2001
Helen Alexander	1 June 1998	31 May 2001
Dr. Iain Anderson	1 November 1995	31 October 1998
Malcolm Argent	1 August 1994	31 December 1998
Sir Ewen Fergusson	24 May 1993	(a)
J. Keith Oates	1 June 1994	(a)

- (a) Terminable on twelve months' notice by the company or the director.

Neville Isdell joins the Board as a non-executive director with effect from 1 July 1998 and has entered into an initial service contract from 1 July 1998 to 30 June 2001. Sir John Weston will join the Board as a non-executive director with effect from 1 October 1998 and will enter into a service contract with the company.

There are no other service agreements, existing or proposed, between any of the directors and the company. There are no arrangements or understandings between any director or executive officer and any other person pursuant to which such director or executive officer was selected to serve. There are no family relationships between any of the directors of the company.