

Report of the directors

The directors submit their report and the audited financial statements of the company, British Telecommunications plc, and the group, which includes its subsidiary undertakings, for the year ended 31 March 1997.

Introduction

The business review on pages 6 to 12, the financial review on pages 13 to 20, the discussion on corporate governance on pages 24 and 25 and the report of the *Board Committee on Executive Remuneration* on pages 27 to 33 form part of this report. The audited financial statements are presented on pages 36 to 62.

The group's principal activity is the supply of telecommunication services and equipment. In the year, 97% of group turnover arose from operations in the United Kingdom.

Directors

The current directors of the company are shown on pages 22 and 23. All served throughout the financial year with the exception of Mr Gerald Taylor who was appointed to the Board as from 4 November 1996. In addition, Lord Tebbit served on the Board until his retirement as a director on 2 November 1996.

In accordance with the articles of association, Mr Gerald Taylor, having been appointed to the Board since the last annual general meeting, retires at the forthcoming annual general meeting and will be proposed for election. Mr Keith Oates, Mr Bert Roberts and Dr Alan Rudge retire by rotation and will be proposed for re-election. Details of these directors' service contracts or contracts of appointment are shown in the report of the *Board Committee on Executive Remuneration* on page 29.

Substantial shareholdings

At 20 May 1997, the company had received a notification from the Prudential Corporation group of companies under Part VI of the Companies Act 1985 in respect of a holding of 205 million shares representing 3.2% of the company's issued ordinary share capital.

Policy on the payment of suppliers

BT's policy is to use its purchasing power fairly and to pay promptly and as agreed.

BT has a variety of payment terms with its suppliers. The terms for payments for purchases under major contracts are settled when agreeing the other terms negotiated with the individual suppliers. It is BT's policy to make payments for other purchases within thirty working days of the invoice date, provided that the relevant invoice is presented to the company in a timely fashion and is complete. BT's payment terms are printed on the company's standard purchase order forms or, where appropriate, specified in individual contracts agreed with suppliers. The ratio, expressed in days, between the amounts invoiced to the company by its suppliers in the year ended 31 March 1997 and the amounts owed to its trade creditors at the end of the year was 32 days.

Auditors

A resolution to reappoint Coopers & Lybrand as the company's auditors and authorise the directors to settle their remuneration will be proposed at the annual general meeting.

Annual general meeting resolutions

The resolutions to be proposed at the annual general meeting to be held on 16 July 1997, together with explanatory notes, appear in the separate *Notice of 1997 Annual General Meeting* sent to all shareholders.

By order of the Board

C R Green

Secretary and Chief Legal Adviser

20 MAY 1997

Registered office: 81 Newgate Street, London EC1A 7AJ

Registered in England: No 1800000