

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 1998.

Introduction

The business review on pages 6 to 14, the financial review on pages 15 to 25, the discussion on corporate governance on pages 30 to 32 and the report on directors' remuneration on pages 33 to 40 form part of this report. The audited financial statements are presented on pages 45 to 79.

Principal activity

The group's principal activity is the supply of telecommunication services and equipment. In the year, 96% of group turnover arose from operations in the United Kingdom.

Directors

The names and biographical details of the directors of the company are given on pages 26 and 27. All served throughout the financial year, with the exception of Bill Cockburn who was appointed to the Board as from 1 April 1998 and Helen Alexander and Neville Isdell who will join the Board on 1 June 1998 and 1 July 1998, respectively.

In addition, Yve M Newbold, Dr Alan W Rudge CBE, Gerald H Taylor, Bert C Roberts Jnr and Birgit Breuel served on the Board until their retirement as directors on 30 June 1997, 31 October 1997, 9 November 1997, 17 March 1998, and 31 March 1998, respectively.

In accordance with the articles of association, Bill Cockburn, Helen Alexander and Neville Isdell, having been appointed to the Board since the last annual general meeting, retire at the forthcoming annual general meeting and will be proposed for election. Sir Colin Marshall and Malcolm Argent retire by rotation and will be proposed for re-election. Details of these directors' service contracts or contracts of appointment are included in the report on directors' remuneration on page 36 and the discussion on corporate governance on page 30, respectively.

On 22 May 1998, BT announced that Sir John Weston, who retires as Britain's Ambassador to the United Nations at the end of June, is to join the Board as a non-executive director on 1 October 1998.

Substantial shareholdings

At 26 May 1998, 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 247 million shares representing 3.9% 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 1998 and the amounts owed to its trade creditors at the end of the year was 29 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 15 July 1998, together with explanatory notes, appear in the separate *Notice of 1998 Annual General Meeting* sent to all shareholders.

By order of the Board

C R Green

Secretary and Chief Legal Adviser

26 MAY 1998

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