

Chris Hodge,
Corporate Governance Unit,
Financial Reporting Council,
Fifth Floor,
Aldwych House,
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Dear Mr Hodge

REVIEW OF EFFECTIVENESS OF THE COMBINED CODE PROGRESS REPORT AND SECOND CONSULTATION

We have reviewed the Progress Report and Second Consultation document of the FRC's Review of Effectiveness of the Combined Code. We are generally supportive of the proposals incorporating the recommendations from the Walker Review and continue to believe that the 'comply or explain' principle remains appropriate. We also support the adoption of the three guiding principles when assessing the case for changes to the Code and guidance. In particular, we do not see any benefit in increasing the level of prescription in the Code.

The specific points we would make are as follows:

1. Responsibilities of the chairman and non-executive directors

We do not believe that it would be helpful to give further clarification of the role, key responsibilities and expected behaviours of the chairman, the senior independent director and/or the non-executive directors, either in the Code or in non-binding guidance. This, we consider, would be too prescriptive and could inhibit the chairman, in particular, in carrying out his leadership role.

Equally, we consider it would be too prescriptive to provide further specification or guidance on the time commitment or qualities expected of the chairman, senior independent director and/or non-executive directors. The time commitment required varies from company to company and is to some extent dependent on the complexity of the business. In our experience most non-executive directors are prepared to dedicate more than the amount of time required by the business from time to time and each individual company should determine its own appropriate level.

2. Board balance and composition

We support the recommendation that boards should comprise at least 50% of non-executive directors. There should be a balance of executive and non-executive directors.

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The board should be sufficiently large to provide appropriate membership for all of the board committees.

We would also support the deletion of the 'nine year rule' and agree that it could, increasingly, result in Boards losing continuity and valuable experience, prematurely.

3. Frequency of director re-election

We do not support the proposals for the annual re-election of the chairman, chairs of the main board committees or all directors. This would inhibit longer term planning for lack of certainty, and encourage short-termism. It would also attach any issues which shareholders have to particular directors and individual performance.

We also consider that it would achieve little if the chairman of the remuneration committee stood for re-election in the year following a vote of less than 75% of votes cast on the remuneration committee report. In practice, action to address the lack of support (including appointment of a new chairman of the remuneration committee) should have been taken much earlier – a vote of less than 75% against a remuneration report should be sufficient to prompt a company to seriously review its remuneration policy.

We also do not support a binding or advisory vote on specific issues. The shareholders already vote on the annual report as a whole and the report on directors' remuneration, and it would be an unbalanced approach to isolate certain issues, other than those which require approval by regulation.

4. Board evaluation

We support the principle of regular external evaluation by the Board and agree that this should occur at least every three years.

We agree that there should be a more relaxed approach to the regular evaluation of committees.

As far as disclosure in the annual report is concerned, we agree that, at the discretion of the company, the outcomes and action points from the evaluation should be disclosed.

5. Risk management and internal control

As regards more extensive disclosure relating to risk management, we would like to see that any recommendations take account of the existing disclosure provisions, both in the UK and other jurisdictions, to reduce the information overload. Companies are already required to give details of, e.g. principal risks and uncertainties, systems of internal control and the risk management process.

6. Remuneration

We agree with the principles of the Walker recommendations relating to remuneration but believe that they must not be too prescriptive. In particular, the provisions

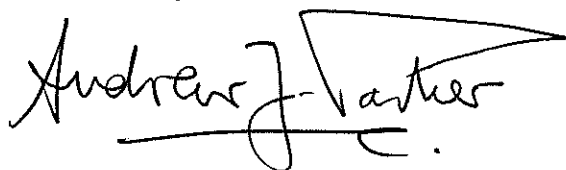
relating to the payment of long term incentives over a period of five years, and bonuses over three years may not be appropriate for non-BOFI companies.

We do not believe that shareholders should be given a more direct role in the setting of remuneration. This is a matter for the company although shareholders should (as they often are currently) be consulted for their views, particularly if new arrangements are proposed, prior to the publication of the report on directors' remuneration.

7. Engagement between boards and shareholders

We would welcome any proposals that support the principle that with ownership comes responsibility.

Yours sincerely,

A handwritten signature in black ink, reading "Andrew J. Vather". The signature is written in a cursive style with a large, sweeping initial 'A' and a long horizontal line extending from the end of the name.