

Report on directors' remuneration

The *Remuneration Committee* is made up wholly of independent non-executive directors. Throughout the year, the company has applied the principles in Section 1 of the London Stock Exchange Combined Code (the Code) and complied with the Code's provisions.

The Committee's role is to set the remuneration policy for the Chairman, the executive directors and the members of the company's *Group Executive Committee*. Specifically, it agrees the service contracts, salaries, other benefits, including bonuses and participation in the company's executive share plans, and other terms and conditions of employment. Lord Marshall has chaired the Committee since 1 January 1996. Its other members during the year were:

Dr Iain Anderson
Sir Ewen Fergusson (retired 31 March 1999)
Neville Isdell (appointed 1 July 1998)
Keith Oates

The Committee met five times during the 1999 financial year. The Chairman and Chief Executive are invited to attend meetings to discuss senior executive remuneration recommendations. They are not present when their own remuneration arrangements are being considered.

Although the full Board considers itself ultimately responsible for both the framework and the cost of executive remuneration, the Board has delegated prime responsibility for these issues, together with control of executive remuneration packages, to the *Remuneration Committee*. Non-executive directors who are not members of the Committee are entitled to receive papers and minutes of the Committee.

The Committee has access to professional advisers both within the company and externally. The Committee Chairman and senior executives maintain contact when appropriate with BT's principal shareholders and the main representative groups of the institutional shareholders to discuss the company's overall remuneration policy and its development.

Remuneration policy

BT's executive remuneration policy is in line with the company's overall practice on pay and benefits. This is to reward employees competitively taking into account performance, market comparisons and competitive pressures in the communications and IT sectors worldwide. Whilst not seeking to maintain a strict market position, it takes account of comparable roles in similar organisations. These may be similar in size, market sector, business complexity or international scope. As BT extends its

business globally, it takes account of markets outside the UK where the scope of a particular role warrants this approach. The strategy for executive pay, in general terms, is for basic salaries to reflect the relevant market median with total direct compensation (that is, basic salary, annual bonus payments and the value of long-term incentives) at the upper quartile for exceptional performance.

The Committee considers that it is crucial to link a significant proportion of the total executive remuneration package to individual and corporate performance. Over several years, it has been the Committee's policy to increase the proportion of the total remuneration package linked to performance to align executive performance and reward with the interests of shareholders. Remuneration policy and arrangements are kept under constant review to achieve this objective and to ensure the company can attract and retain executives of the necessary quality in a highly and increasingly competitive marketplace.

Packages

The remuneration package for the Chairman and executive directors comprises some or all of the following elements:

- **Basic salary**

Salaries are reviewed (although not necessarily increased) annually. Salaries are increased only where the Committee believes that adjustments are appropriate to reflect performance, increased responsibilities and/or market pressures.

- **Performance-related remuneration**

Annual bonus

The annual bonus plan focuses on annual objectives and is designed to reward appropriately the achievement of results against these objectives. Targets are set at the start of the financial year based on key corporate objectives, such as revenue growth, profitability, quality of service, customer satisfaction and people management. Specific weights are attached to each objective on the basis of the BT Corporate Scorecard. The Committee retains the flexibility to enhance bonus awards in exceptional circumstances.

BT Executive Share Plan/

BT Performance Share Plan

The BT Executive Share Plan (ESP), formerly the BT Long Term Remuneration Plan, was approved by shareholders in 1995. Awards of BT shares normally vest at the end of five years only if BT's total shareholder return (TSR) meets a pre-determined target relative to the FT-SE 100 companies and if the executive is still employed by the group. Awards are based on the executive's bonus and are therefore dependent upon his

or her individual performance. The initial value of the awards is between 33% and 100% of salary. The first potential vesting of awards under the ESP will be in the 2000 financial year. Around 120 senior executives participate in the ESP.

The BT Performance Share Plan (PSP) was also approved by shareholders in 1995. Like the ESP, the vesting of awards of BT shares under the PSP is subject to the company meeting a pre-determined TSR target measured against the FT-SE 100 companies. Normally, if the performance target is met and the participant is still employed by the group, the awards will vest within two years of the end of a three-year cycle (which may be extended up to five years).

The value of awards granted under the PSP has generally been around 10% to 20% of salary each year. For the awards to be granted in the 2000 financial year it is intended that the minimum value of the awards will remain at 10% of salary but the maximum value of the awards will be increased to 25% of salary to ensure that the awards are competitive. Around 1,200 senior managers, who do not participate in the ESP, will receive awards under the PSP. The first vesting under the PSP was in 1998 when 90% of the shares vested, based on BT's TSR measured against the FT-SE 100 companies, ranking in 34th position.

In the event of the company purchasing its own shares, the *Remuneration Committee* will review performance targets under the ESP and the PSP and adjust them if it considers such an adjustment would be appropriate.

BT Deferred Bonus Plan

The BT Deferred Bonus Plan (DBP) was introduced in 1998.

The first awards, in the form of BT shares, were granted to around 200 senior executives during the 1999 financial year in respect of the 1998 financial year. The awards were equivalent in value to one-half of the executive's gross annual bonus (excluding any special bonuses) and the shares are held in trust. The shares will normally be transferred to the executive if he or she has continued to be employed by the group throughout a three-year deferred period. It is intended that the value of deferred bonuses granted in respect of the 1999 financial year will, except in a very limited number of exceptional circumstances where higher levels of award are justified, be equivalent to 50% of annual bonus. It is anticipated that around 300 senior executives will receive deferred bonuses in respect of the 1999 financial year.

BT Share Option Scheme

The BT Share Option Scheme for senior executives was not replaced after its expiry in January 1995. The last options were granted in December 1994.

Details of options exercised during the 1999 financial year and unexercised options are shown on page 53.

- **Pensions**

For the executive directors and other senior executives, the policy is to provide pension benefits of one thirtieth of final salary for each year of service with a two-thirds pension for the surviving spouse. The executive directors and certain other senior executives have undertakings of pension benefits of two-thirds of final salary at normal retirement age with a pension of two-thirds of the director's pension for the surviving spouse. On death in service a lump sum equal to four times annual salary is payable together with a pension of two-thirds of the director's prospective pension for the surviving spouse. Pensions are based on salary alone – bonuses, other benefits and long-term incentives are excluded.

The primary means of providing pensions is through the BT Pension Scheme (BTPS).

- **Other benefits**

Other benefits include car and driver, personal telecommunications facilities, medical and dental cover for the director and immediate family and financial counselling. During the year, the company introduced a permanent health insurance policy to provide cover for full-time executive directors and members of the *Group Executive Committee*.

- **Other incentive plans**

During the year, an incentive plan was established for senior executives in BT Cellnet, the mobile phone operator owned 60% by BT. This plan specifically links an element of these executives' long-term remuneration to the performance of BT Cellnet over a three and a half year period, rather than to the performance of the BT group. All the awards are cash awards. It replaces participation in the DBP for the executives concerned for so long as it operates.

The *Remuneration Committee* has reviewed this plan and will review any further plans of this type, to ensure they are consistent with BT's overall remuneration policy for its senior executives.

Service agreements

It is the company's policy that the Chairman and the executive directors have service agreements providing for one year's notice, except where it is necessary to offer longer periods to new directors from outside BT or circumstances make it appropriate to offer a longer fixed term. All the service agreements contain provisions dealing with the removal of a director through poor performance. They also deal with payments to which the director would be entitled in the event of early termination of the contract by BT.

Outside appointments

The Committee believes there are significant benefits to both the company and the individual from executive directors accepting non-executive directorships of companies outside BT. The Committee will consider approving up to two external appointments for which the director may retain the fees.

Non-executive directors' contracts of appointment

It is the company's policy that every non-executive director has a contract of appointment. This covers, amongst other things, the initial term for which they are appointed, a general statement of their role and duties, the fees they will receive as a director and supplementary fees for additional work such as being a member of a Board Committee.

Non-executive directors are normally appointed for an initial period of three years and are then subject to 12 months' notice. Further details of their appointment arrangements are set out on page 44 in the section of this report dealing with corporate governance issues.

Non-executive directors' remuneration

About two-thirds of the BT Board are non-executive directors who, in accordance with BT's articles of association and as recommended by the Code, cannot individually vote on their own remuneration. Therefore, the Board does not consider it appropriate for the whole Board to determine non-executive remuneration. This is set by the Chairman and the Chief Executive after considering external advice on appropriate levels of remuneration.

The basic fee for non-executive directors, which includes membership of one committee, was increased from 1 January 1999 to £30,000 per year (previously £25,000). Additional fees for membership of Board committees range from £3,000 to £5,000 per year. Committee chairmen receive an additional fee of £2,000 a year for each committee they chair. The Deputy Chairman is paid an inclusive annual fee of £75,000 (1998: £65,000).

To align further the interests of the non-executive directors with those of shareholders, in January 1999 the company

introduced a policy to encourage these directors to purchase £5,000 of BT shares each year. The directors are expected to hold those shares until they retire from the Board. All the non-executive directors have confirmed that they support this policy and will buy shares.

Remuneration review

Directors' remuneration

As reported elsewhere in the annual report, Sir Iain Vallance became part-time Chairman from 1 August 1998. From that date, his annual salary has been £275,000 (from £500,000 as full-time Chairman). From 1 April 1998, fifteen months after their previous increase, Sir Peter Bonfield's salary was increased from £570,000 to £617,500 and Robert Brace's salary increased from £300,000 to £330,000. Bill Cockburn was appointed to the Board on 1 April 1998. His salary from 1 July 1998 has been £465,000 (from £450,000).

From 1 March 1998, Bill Cockburn's salary was, at his request, reduced by £10,000 a month. From that date, the company made contributions of £10,000 each month to an unapproved retirement benefits scheme transferred from Bill Cockburn's previous employer. This voluntary salary reduction ceased on 30 September 1998. Bill Cockburn's bonus and other relevant benefits were determined on his full salary during the period of his voluntary salary reduction.

From 1 April 1999, Sir Peter Bonfield's salary was increased to £725,000 a year and Robert Brace's to £355,000. Bill Cockburn's salary will be increased to £495,000 from 1 June 1999.

For Sir Peter Bonfield, annual bonus awards are based wholly on the achievement of group-wide objectives and results measured against the overall BT Corporate Scorecard. His "on target" bonus for the 1999 financial year was 65% of salary, subject to a maximum of 100% of salary. In addition, Sir Peter was paid a bonus in January 1999 of £150,000 in recognition of his contribution to the sale of BT's stake in MCI to WorldCom for US\$7 billion and to the agreement with AT&T for the formation of the global venture.

For Robert Brace, Bill Cockburn and other members of the *Group Executive Committee*, annual bonus awards are based on the achievement of a mix of group, divisional and personal objectives. Robert Brace's bonus this year also took account of his contribution to the sale of BT's MCI stake and the formation of the global venture.

Robert Brace's "on target" bonus for the 1999 financial year was between 35% and 40% of salary, subject to a maximum of 60%.

Bill Cockburn's bonus arrangements provide for an "on target" bonus of 50% of salary, subject to a maximum of 75%.

Annual bonus awards for executive directors for the year under review ranged from 50% to 88% of salary.

The Remuneration Committee noted the particular contribution of Sir Peter Bonfield to the significant success of the company in the 1999 financial year, likewise in respect of Bill Cockburn for the performance of the UK business. It also wished to improve the retention incentives.

For the 1999 financial year, the Committee has increased the deferred bonuses which are held in the DBP and paid in shares in three years time if they are still employed by the company to twice the annual bonus for Sir Peter and to the amount of his annual bonus for Bill Cockburn.

In recognition of his contribution to the success of the company throughout the 1999 financial year, Sir Iain Vallance received a bonus of £300,000.

The remuneration (excluding pension arrangements and deferred bonuses) of the directors was as follows:

	Salary and fees		Annual and special bonuses		Benefits excluding pension (a)		Total (c)	
	1999 £000	1998 £000	1999 £000	1998 £000	1999 £000	1998 £000	1999 £000	1998 £000
Sir Iain Vallance	349	500	300	325	45	37	694	862
Sir Peter Bonfield	617	570	725	325	37	43	1,379	938
R P Brace	329	300	210	162	26	23	565	485
B Cockburn	400	-	280	-	15	-	695	-
Lord Marshall	75	65	-	-	-	-	75	65
H Alexander	24	-	-	-	-	-	24	-
J I W Anderson	46(b)	38(b)	-	-	-	-	46	38
Sir Ewen Fergusson	33	38	-	-	-	-	33	38
N Isdell	22	-	-	-	-	-	22	-
J K Oates	36	35	-	-	-	-	36	35
Sir John Weston	16	-	-	-	-	-	16	-
M Argent	30	52	-	-	1	1	31	53
A W Rudge	-	208	-	70	-	11	-	289
Non-executive directors who retired in previous year	-	30	-	-	-	-	-	30
	1,977	1,836	1,515	882	124	115	3,616	2,833

(a) Includes other benefits as described above. In addition to his company car, Sir Iain Vallance has use of a car in Scotland.

(b) Payments to non-executive directors include fees paid to their principal employer of £9,500 (1998 - £38,000).

(c) In addition, deferred bonuses payable in shares in three years time, provided they are still employed by the company, were awarded to Sir Peter Bonfield - £1,150,000 (1998 - £163,000), Robert Brace - £82,500 (1998 - £59,000) and Bill Cockburn - £280,000.

When added to the amounts paid or currently payable for the 1999 financial year, in the table above, the total remuneration of Sir Peter Bonfield was £2,529,000 (1998 - £1,101,000), Robert Brace £647,500 (1998 - £544,000) and Bill Cockburn £975,000.

Bill Cockburn was appointed a director on 1 April 1998, Helen Alexander on 1 June 1998, Neville Isdell on 1 July 1998 and Sir John Weston on 1 October 1998. Malcolm Argent retired on 31 December 1998 and Sir Ewen Fergusson on 31 March 1999. In the previous year, Yve Newbold retired on 30 June 1997, Dr Alan Rudge on 31 October 1997, Gerald Taylor on 9 November 1997, Bert Roberts on 17 March 1998 and Birgit Breuel on 31 March 1998. Yve Newbold remains on the Community Support Committee for which she received fees of £5,000 in the year ended 31 March 1999 (1998 - £3,750) after her retirement as a director.

The directors' long-term remuneration benefits, through the exercise of share options, were as follows:

	1999 £000	1998 £000
Sir Iain Vallance	-	415
R P Brace	891	-
A W Rudge	41	442

The figures in the above table are based on the amount by which the market value of the shares on the date of exercise exceeded the option price. The figures include the employee compensation for the special dividend (see note 4 to the financial statements).

BT Performance Share Plan

The first three-year performance cycle of the PSP ended on 31 July 1998 and, on the basis of the company's TSR compared with the FT-SE 100 companies, 90% of the shares vested on 19 August 1998 in 745 participants and 5 million shares were transferred to those participants. Further awards of shares were granted in 1998 under the second three-year performance cycle of the PSP.

Pensions

The Chairman and all the executive directors, except Sir Peter Bonfield, are members of the BTPS. In addition to the company's contribution, individuals contributed 6% of salary in the year ended 31 March 1999. Sir Peter's pension arrangements are non-approved (by the Inland Revenue) and unfunded.

When an individual will not achieve the target level of pension benefit at normal retirement age because of the Government earnings cap for calculation of pension benefits, the company may make up the shortfall by purchasing additional service in the BTPS and/or through non-approved, unfunded arrangements.

From 1 August 1998, Sir Iain Vallance has been entitled to receive an annual pension of £333,333 from the company in accordance with his supplementary pension arrangements. This pension will be increased in line with future inflation. The pension paid in the year ended 31 March 1999 amounted to £222,222.

Whilst Sir Iain is part-time Chairman he is a deferred member of the BTPS and his pension is being paid entirely by the company. Sir Iain's pension arrangements entitle his surviving widow to his full pension until July 2003 and to two-thirds of his pension after that date.

Sir Peter Bonfield's pension arrangements provide for a pension of two-thirds of his final salary at 60, inclusive of any retained benefits from his previous employment, and a surviving spouse's pension of two-thirds of his pension. He is entitled to a pension of 52% of salary if he were to retire at 55. If retirement occurs between 55 and 60, the percentage of salary used to calculate the pension will increase on a uniform basis.

Bill Cockburn is a member of the BTPS and has an unfunded and non-approved arrangement to meet the shortfall resulting from the pensions cap. In addition he has a funded non-approved retirement benefits scheme transferred from his previous employer to which the company made monthly contributions of £10,000 from 1 March 1998 to 30 September 1998. Bill Cockburn's salary was reduced, at his request, by £10,000 a month during this period.

The table below shows the increase in the accrued benefits to which each director has become entitled during the year and the transfer value of the increase in accrued benefit.

	Increase in accrued pension during year or to date of retirement in year (a)		Total accrued pension at year end or at date of retirement, if earlier (b)		Transfer value of increase in accrued benefit (c)	
	1999 £000	1998 £000	1999 £000	1998 £000	1999 £000	1998 £000
Sir Iain Vallance (d)	1	9	333	332	5	159
Sir Peter Bonfield	30	18	72	41	500	276
R P Brace	17	14	118	98	205	173
B Cockburn	15	-	23	-	258	-

(a) The increase in accrued pension during the year excludes any increase for inflation.

(b) The pension entitlement is that which would be paid annually on retirement at normal retirement age based on service to the end of the year or date of retirement if earlier.

(c) The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 and excludes directors' contributions. The transfer value represents a liability of the company rather than any remuneration due to the individual and cannot be meaningfully aggregated with annual remuneration, as it is not money the individual is entitled to receive.

(d) Based on service to 31 July 1998, after which no further pension entitlements accrue.

Directors' interests

The interests of directors and their families in the company's shares at 31 March 1999 and 1 April 1998, or date of appointment if later, are shown below:

Beneficial holdings	1999	1998
Sir Iain Vallance	208,452	208,366
Sir Peter Bonfield	9,465^(a)	9,228 ^(a)
R P Brace	144,283^(a)	30,103 ^(a)
B Cockburn	4,181	4,181
Lord Marshall	2,000	2,000
H Alexander	-	-(^b)
J I W Anderson	4,155	4,155
Sir Ewen Fergusson	-	-
N Isdell	2,000	-(^b)
J K Oates	3,878	3,810
Sir John Weston	1,008	1,000 ^(b)
Total	379,422	262,843

(a) Includes 9,245 shares (1998 – 9,094 shares) purchased and held by Sir Peter Bonfield and 22,200 shares (1998 – 21,841 shares) by Robert Brace in the ESP (see note 31 to the financial statements).

(b) At date of appointment.

Details of share options held at 1 April 1998, granted and exercised under the share option schemes during the year, and the balance held at 31 March 1999 are as follows:

	Number of shares under option			31 March 1999	Option exercise price per share	Market price at date of exercise	Usual date from which exercisable	Usual expiry date
	1 April 1998	Granted	Exercised					
Sir Iain Vallance	57,957	-	-	57,957	333p		09/03/95	09/03/02
	20,770	-	-	20,770	430p		04/03/96	04/03/03
	3,760	-	-	3,760	375p		08/12/97	08/12/04
	82,487	-	-	82,487				
Sir Peter Bonfield	6,460	-	-	6,460	267p		14/08/01	14/02/02
R P Brace	136,890	-	136,890 ^(b)	-	263p	734p	06/09/92	06/09/99
	18,680	-	18,680 ^(b)	-	289p	734p	07/12/93	07/12/00
	18,020	-	18,020 ^(b)	-	333p	734p	09/03/95	09/03/02
	24,890	-	-	24,890	430p		04/03/96	04/03/03
	30,180	-	-	30,180	460p		15/11/96	15/11/03
	23,470	-	-	23,470	375p		08/12/97	08/12/04
	2,265	-	2,265 ^(c)	-	320p	817.5p	14/06/98	14/12/98
	3,876	-	-	3,876	267p		14/08/01	14/02/02
	-	1,332 ^(d)	-	1,332	518p		14/08/03	14/02/04
	258,271	1,332	175,855	83,748				
B Cockburn	-	3,330 ^(d)	-	3,330	518p		14/08/03	14/02/04
A W Rudge ^(e)	10,940	-	10,940 ^(f)	-	430p	648p	04/03/96	04/03/03
	2,460	-	2,460 ^(f)	-	375p	648p	08/12/97	08/12/04
	2,254	-	1,193 ^(g)	-	306p	670.5p	14/06/00	14/12/00
	15,654	-	14,593	-				
Total	362,872	4,662	190,448	176,025				

(a) All of the above options were granted for nil consideration.

(b) Options exercised under the BT Share Option Scheme on 12 October 1998.

(c) Options exercised under the BT Employee Sharesave Scheme, in which all employees of the company are eligible to participate, on 15 July 1998.

(d) Options granted under the BT Employee Sharesave Scheme, in which all employees of the company are eligible to participate, on 25 June 1998.

(e) Dr Rudge retired as a director of the company on 31 October 1997.

(f) Options exercised under the BT Share Option Scheme on 22 April 1998.

(g) Options exercised under the BT Employee Sharesave Scheme, in which all employees of the company are eligible to participate, on 3 April 1998. Dr Rudge exercised a proportion of the shares under option in accordance with the rules of the Scheme, following which the remaining 1,061 shares under option lapsed.

Unrealised gains on the above share options at 31 March 1999, based on the market price of the shares at that date, excluding the employee compensation for the special dividend which is discretionary in respect of directors' share options, were as follows:

	Options exercisable			Options not exercisable		
	Number of shares	Unrealised gains		Number of shares	Unrealised gains	
		1999 £000	1998(a) £000		1999 £000	1998(a) £000
Sir Iain Vallance	82,487	538	240	-	-	-
Sir Peter Bonfield	-	-	-	6,460	48	25
R P Brace	78,540	460	831	5,208	35	22
B Cockburn	-	-	-	3,330	16	-

(a) Based on options outstanding at 31 March 1998 and the market price of the shares at that date.

The market price of the shares at 31 March 1999 was 1,011p (1998 – 650p) and the range during the year ended 31 March 1999 was 630p to 1,118.5p.

Details of the company's ordinary shares provisionally awarded to directors, as participants under the ESP and PSP (note 31 to the financial statements), are as follows:

	Total number of award shares				Range of value of award	
	1 April 1998	Awarded	Dividends reinvested	31 March 1999	Minimum £000	Maximum £000
Sir Peter Bonfield	240,420	71,909	6,511	318,840	499	3,223
R P Brace	256,909	36,508	6,106	299,523	478	3,028
B Cockburn	32,520	49,782	1,714	84,016	302	816
A W Rudge	124,028	-	2,582	126,610	256	1,280
Total	653,877	158,199	16,913	828,989	1,535	8,347

(a) Excluding shares purchased by each director and held under the ESP (see page 52).

(b) During the 1998 financial year, Bill Cockburn was awarded 32,520 shares under the PSP. The three-year performance cycle for that award ended on 31 July 1998 and, on the basis of the position of BT's TSR at the end of the initial three-year cycle, 90% of the shares under award, including reinvested dividends, will vest. The vesting will take place within the two years following the end of the performance cycle in accordance with the rules of the plan.

(c) For the ESP, based on the market value of the company's shares at 31 March 1999. The minimum figure represents those shares held at 31 March 1999 which will transfer to each director at the end of year five of the plan (1999 to 2003). The maximum figure represents all shares held at 31 March 1999 which will transfer to each director at the end of year five of the plan (1999 to 2003) provided the corporate performance measure has been fully met. Normally, shares will transfer only if the individual is still employed by the group. However, the plan gives discretion to preserve awards of shares after retirement. Under this discretion, Dr Rudge's awards have been preserved until the end of year five of the plan.

(d) For the PSP, shows the market value at 31 March 1999 of the company's shares which will vest in Bill Cockburn.

At 31 March 1999, deferred bonuses of 18,352 shares, 6,605 shares and 6,605 shares had been awarded to Sir Peter Bonfield, Robert Brace and Bill Cockburn, respectively, under the DBP for the 1998 financial year. These shares will normally be transferred to participants at the end of the three-year deferred period if those participants are still employed by BT.

At 31 March 1999, Sir Iain Vallance, Sir Peter Bonfield, Robert Brace and Bill Cockburn each had a non-beneficial interest in 53,912 shares (1998 – 21,919) purchased by BT Employee Shares Trustees Limited for allocation to employees under the BT Employee Share Ownership Scheme, and 6,947,296 shares (1998 – 10,467,987) held in trust by Ilford Trustees (Jersey) Limited for allocation to participating employees under the ESP, the DBP and the PSP.

No director had any interest in the debentures of the company or in the share capital or debentures of its subsidiaries.

Subsequent to 31 March 1999, Robert Brace has notified the company of the acquisition of beneficial holdings of a total of 26 shares under personal equity plans and Helen Alexander notified the company of the acquisition of 930 shares. There have been no other changes in the directors' interests in the share capital, including options to subscribe for shares, or in the debentures of the company and its subsidiaries between 31 March 1999 and 25 May 1999.

Directors' service agreements and contracts of appointment

The dates on which the Chairman's and each current executive directors' initial service agreement commenced and the current expiry dates are as follows:

Chairman and executive directors	Commencement date of initial service agreement	Expiry date of current service agreement
Sir Iain Vallance	6 August 1984	31 July 2000 ^(a)
Sir Peter Bonfield	1 January 1996	31 December 1999 ^(b)
R P Brace	1 October 1993	^(c)
B Cockburn	1 April 1998	30 September 1999 ^(d)

^(a) Sir Iain Vallance entered into a new agreement when he became part-time Chairman on 1 August 1998. To ensure Sir Iain's contribution to BT for a reasonable period after he took up his part-time role, this agreement is for an initial fixed two-year term.

^(b) The initial term of Sir Peter Bonfield's agreement was extended in the year ended 31 March 1998. After 31 December 1999 the agreement can be terminated by either the company or Sir Peter on 12 months' notice.

^(c) Terminable on 12 months' notice by either the company or Robert Brace.

^(d) Terminable after 30 September 1999 on 12 months' notice by either the company or Bill Cockburn.

The dates on which current non-executive directors' contracts of appointment commenced and the current expiry dates are as follows:

Non-executive director	Commencement date of initial contract	Expiry date of current contract
Lord Marshall	1 April 1995	31 March 2001
H Alexander	1 June 1998	31 May 2001
J I W Anderson	1 November 1995	^(a)
N Isdell	1 July 1998	30 June 2001
J K Oates	1 June 1994	^(a)
Sir John Weston	1 October 1998	30 September 2001

^(a) Terminable on 12 months' notice by either the company or the director or on one month's notice effective on the sixth anniversary of initial appointment.

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

By order of the Board

Lord Marshall of Knightsbridge

Deputy Chairman and Chairman of Remuneration Committee

25 MAY 1999

