

Report of the Board Committee on Executive Remuneration

The *Board Committee on Executive Remuneration* comprises independent non-executive directors only. It determines the remuneration, benefits and terms and conditions of employment of the executive directors and members of the company's Executive Committee. It has been chaired since 1 January 1996 by Sir Colin Marshall and its other members during the year were:

Dr Iain Anderson
Sir Ewen Fergusson
Yve Newbold (until 30 November 1996)
Keith Oates
Lord Tebbit (until 2 November 1996)

The Committee, which has formal terms of reference, met eight times during the year ended 31 March 1997.

The Committee's constitution and operation have fully complied throughout the year with Section A of the best practice provisions of the Stock Exchange Listing Rules. The Committee also confirms that full consideration has been given to Section B of the best practice provisions in framing its remuneration policy.

Remuneration policy

BT's executive remuneration policy is to reward senior executives competitively. The Committee does not seek to maintain any strict market position but rather to ensure that pay is set appropriately and in the knowledge of pay practice amongst appropriate comparators. The Committee focuses on the largest companies by market capitalisation, ie the FT-SE 100 and in particular on those organisations where the complexity of roles, of the business and the extent of international scope are comparable. The Committee obtains advice and information from external experts.

The remuneration package for executive directors is made up of the following elements:

- **Basic salary**

Salaries are normally reviewed annually or on a change of responsibilities although it has been the Committee's practice not to increase salaries automatically in times of low market movement. Salaries are increased only where the Committee believes that market adjustments are necessary to reflect responsibilities and contributions to the

business. Salary adjustments were made during the course of the year for a number of key executives, including Sir Iain Vallance, Sir Peter Bonfield and Robert Brace. From 1 January 1997, Sir Iain's salary was increased from £480,000 to £500,000, Sir Peter's salary was increased from £475,000 to £570,000 and Robert Brace's salary was increased from £275,000 to £300,000.

- **Annual bonus**

The annual bonus plan is designed to provide a focus on key annual objectives and to reward senior executives who have achieved results against these objectives. For the Executive Committee the bonus plan is currently capped at 50% of salary with an on-target bonus (payable if all objectives are fully met) of 30 to 35%.

Targets are set at the start of the financial year based on key corporate objectives – such as profitability, quality of service, customer satisfaction and revenue growth; specific weighted targets are attached to each item. Objectives are set on the basis of the BT Corporate Scorecard. This enables the Committee to assess the performance of the executives under four headings: shareholder value, customer satisfaction, process improvement and organisational learning. For the executive directors, with the exception of Robert Brace, bonus awards are based wholly on the achievement of group-wide objectives and results. For Robert Brace, and members of the Executive Committee, bonus payments are based on the achievement of a mix of group, divisional and personal objectives.

Following his decision to step down as Chief Executive from January 1996, the Chairman was not included in the formal bonus plan for the year ended 31 March 1997. The Committee took the view that he should, however, be considered for a discretionary bonus award in the light of his contribution over the year. It is intended that, as a result of the significant change in his responsibilities following the merger with MCI, he will participate again in the bonus plan from 1997/98 onwards with an on-target level of 50% and a maximum of 100% of salary. In the case of Sir Peter Bonfield, the Committee will take account of his contribution to the closing and effective implementation of the merger. Any additional bonus in respect of the merger will be within a total maximum annual bonus of 100% of salary and subject to an overall maximum of £500,000 over the two years, 1997/98 and 1998/99.

Mr Brace's maximum bonus for 1997/98 will be increased to 100% of salary, to allow the Committee to take account of his contribution to completion of the merger and the successful integration of the two companies.

Bonus awards for executive directors for the year under review ranged from 37% to 40% of current salary. The structure of bonus arrangements will be reviewed on completion of the merger.

- **Long-term remuneration**

Long Term Remuneration Plan

The Long Term Remuneration Plan (LTRP) was approved by shareholders at the 1995 AGM. It was designed to ensure that BT's remuneration package remains competitive, to encourage personal investment in BT shares; to foster community of interest with shareholders; to encourage key executives to stay with BT and to link reward and long-term corporate performance more effectively. Under the plan, company shares are acquired by an employee share ownership trust and are conditionally awarded to participants, although participants will only be entitled to these shares in full at the end of a five-year period if the company has met a pre-determined corporate performance measure and the participants are still employed by the BT Group. The performance measure is total shareholder return relative to the FT-SE 100.

The LTRP was operated for a third time in 1996. Over 80 senior executives now participate in the plan and the initial value of awards as a percentage of salary under the 1996 operation ranged from 18% to 99%. It is expected to be operated in 1997 for the last time. The Chairman has not participated in the LTRP.

The future

The Committee believes it has a duty to shareholders to ensure that Concert plc will be able to attract, retain and develop senior executives with the right skills. New share plans to operate for Concert plc after the proposed merger are being put to shareholders for approval at the 1997 annual general meeting. These new share plans are designed to enable Concert plc to achieve these objectives in all the markets in which it will operate. A more detailed explanation of the new plans is contained in the *Notice of 1997 Annual General Meeting* circular sent to all shareholders.

- **Pensions**

For executive directors and other senior executives, the policy is to provide pension benefits from all sources of two-thirds of final salary at normal retirement age of 60 with a two-thirds surviving spouse's pension. On death in service a lump sum equal to four times annual salary is payable together with a surviving spouse's pension of two-thirds of the director's prospective pension. Pensions are based on salary alone – bonuses, other benefits and long-term incentives are excluded. The primary means of providing pensions for the executive directors and their dependants is through the BT Pension Scheme (BTPS). All the executive directors, except Sir Peter Bonfield, are members of the BTPS. For members of the BTPS the company contributed 9.5% of salary to the scheme and the individual contributed 6% of salary in the year ended 31 March 1997. Where an individual will not achieve the target level of pension benefit at normal retirement age, the company may make up the shortfall by purchasing additional service in the BTPS and/or through non-approved, unfunded arrangements.

Sir Iain Vallance is a member of the BTPS and his pension arrangements provide him with the flexibility to retire at any time after age 55 with a pension equivalent to two-thirds of his final salary. His surviving spouse's pension is two-thirds of his pension. As a result of his intention to remain as Co-Chairman of Concert plc for at least three years after the proposed merger, Sir Iain will not take his pension while he remains in full time employment but the value of his pension will be increased in line with inflation from his 55th birthday in May 1998. The excess of Sir Iain's pension entitlement above that provided by the BTPS is unfunded.

Sir Peter Bonfield's pension arrangements are non-approved and unfunded and provide for a pension of two-thirds of his final salary at age 60, inclusive of any retained benefits from his previous employment, and a surviving spouse's pension of two-thirds of his pension.

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 annual pension in year ended 31 March 1997 ^(a) £000	Total accrued annual pension as at 31 March 1997 ^(b) £000	Transfer value of increase in accrued benefit ^(c) £000
Sir Iain Vallance	9	312	98
Sir Peter Bonfield	18	22	184
AW Rudge	24	179	297
RP Brace	15	64	107

(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 based on service to the end of the year.

(c) The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 and excludes directors' contributions.

Members of the BTPS have the option to pay additional voluntary contributions; neither the contributions, if any, nor any resulting benefits are included in the above table.

• **Other benefits**

These include car and driver, personal telecommunications facilities, medical cover for the director and immediate family and financial counselling.

Service agreements

All the executive directors have service agreements which contain provisions for the removal of a director through poor performance.

Sir Iain Vallance entered into a new contract during the year which is subject to twelve months' notice on either side. Sir Iain has confirmed his intention to serve as Co-Chairman of Concert plc for at least three years from the completion of the proposed merger with MCI. During that period, a two-thirds majority decision of the Concert plc Board will be required for the company to terminate his contract.

The initial term of Sir Peter Bonfield's contract has been extended to 31 December 1999. The contract can be terminated by either party giving twelve months' notice expiring after 31 December 1999, the date on which MCI's most senior executives' contracts also expire. Dr Alan Rudge's contract expires on 31 October 1997. Robert Brace's service agreement can be terminated at any time after 31 August 1997 on twelve months' notice by either side.

Gerald Taylor, who joined the Board on 4 November 1996, Keith Oates and Bert Roberts have contracts of appointment as non-executive directors which expire on 3 November 1999, 31 May 1997 and 13 October 1997, respectively. The Board has agreed to continue Keith Oates' appointment from 1 June 1997 subject to a one-year period of notice on either side.

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 the BT group. The Committee will normally consider approving up to two external appointments for which the director may retain the fees.

Non-executive directors' remuneration

Fees for non-executive directors are determined by the Board as a whole, based on the recommendations of the Board Committee on Non-Executive Remuneration whose members are currently the Chairman and the Chief Executive.

During the year, the Board agreed a revised fee structure for non-executive directors with effect from 1 January 1997. The basic fee for non-executive directors, which includes membership of one committee, is now £25,000 per year (1996 equivalent – £22,500). Additional fees for membership of most other Board committees range from £3,000 to £5,000 per year. Committee chairmen receive an additional fee of £2,000 for each committee they chair. Sir Colin Marshall receives an inclusive fee of £65,000 per year as Deputy Chairman.

Directors' remuneration

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

	Salary and fees		Bonus		Benefits excluding pension(a)		Total	
	1997 £000	1996 £000	1997 £000	1996 £000	1997 £000	1996 £000	1997 £000	1996 £000
Sir Iain Vallance	485.0	476.3	185.0	162.0	28.9	19.2	698.9	657.5
Sir Peter Bonfield	498.8	118.8	225.0	42.5	27.1	4.5	750.9	165.8
A W Rudge	286.3	268.8	116.0	100.0	14.6	13.4	416.9	382.2
R P Brace	272.5	233.8	110.0	85.0	16.6	14.2	399.1	333.0
M L Hepher	-	373.1(b)	-	154.0(b)	-	16.2(b)	-	543.3
Sir Colin Marshall	65.0	34.1	-	-	0.2	0.4	65.2	34.5
J I W Anderson	31.0(c)	11.4(c)	-	-	-	-	31.0	11.4
M Argent	46.4	82.1	-	-	0.4	32.7(d)	46.8	114.8
B E Breuel	20.1	19.5	-	-	-	-	20.1	19.5
Sir Ewen Fergusson	33.4	30.0	-	-	0.2	0.2	33.6	30.2
Y M Newbold	28.6	27.1(c)	-	-	0.2	0.2	28.8	27.3
J K Oates	30.1	26.8	-	-	0.2	0.2	30.3	27.0
B C Roberts	-	-	-	-	-	-	-	-
G H Taylor	-	-	-	-	-	-	-	-
Rt Hon Lord Tebbit	17.5	27.7	-	-	-	-	17.5	27.7
Sir Michael Bett	-	31.3	-	-	-	1.4	-	32.7
P G Bosonnet	-	56.3	-	-	-	-	-	56.3
Total remuneration	1,814.7	1,817.1	636.0	543.5	88.4	102.6	2,539.1	2,463.2

(a) Includes such benefits as company car, petrol, driver, personal telephone facilities, medical cover, financial counselling and share schemes.

(b) Under the terms for his leaving the company on 31 December 1995, Mr Hepher continues to receive his salary and contractual benefits until his service contract expires on 5 August 1997. The total salary payable during the year ended 31 March 1997 was £430,000 and he received £80,000 in lieu of benefits. Other benefits for the year ended 31 March 1997 were £14,239. In the prior year for the period 1 January to 31 March 1996 he received salary of £107,500 and benefits of £9,033.

(c) Payments to non-executive directors include fees paid to their principal employer of £30,996 (1996 – £24,125).

(d) Benefits include a company car, valued at £19,500, transferred to Mr Argent.

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

	1997 £000	1996 £000
Sir Iain Vallance	3.0	3.0
A W Rudge	-	3.3
R P Brace	6.1	-
M Argent	83.8	-

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.

Gerald Taylor joined the Board on 4 November 1996 and Lord Tebbit retired on 2 November 1996. Gerald Taylor has agreed to waive fees of £8,587 for the year ended 31 March 1997. Bert Roberts receives no remuneration as a non-executive director of the company. In the previous financial year, Sir Peter Bonfield joined the Board on 1 January 1996, Sir Colin Marshall and Birgit Breuel on 1 April 1995 and Dr Iain Anderson on 1 November 1995. Michael Hepher and Paul Bosonnet retired on 31 December 1995. Sir Michael Bett retired on 31 January 1996; he remains chairman of Cellnet Group Limited, a subsidiary company, for which he received fees of £15,000 during the year ended 31 March 1997.

Directors' interests

The interests of directors and their families in the company's shares at 31 March 1997 and 1 April 1996, or date of appointment if later, are shown below:

Beneficial holdings	1997	1996
Sir Iain Vallance	185,756	182,616
Sir Peter Bonfield	8,305^(a)	–
A W Rudge	42,207^(a)	41,693 ^(a)
R P Brace	20,231^(a)	13,110 ^(a)
Sir Colin Marshall	2,000	2,000
J I W Anderson	–	–
M Argent	17,988	17,988
B E Breuel	–	–
Sir Ewen Fergusson	–	92
Y M Newbold	1,190	1,150
J K Oates	3,764	3,660
B C Roberts	5,000	5,000
G H Taylor	–	– ^(b)

^(a) Includes 8,305 shares (1996 – nil) purchased and held by Sir Peter Bonfield, 12,945 shares (1996 – 12,498 shares) by Dr Rudge and 16,710 shares (1996 – 10,495 shares) by Mr Brace in the Long Term Remuneration Plan (see note 26 to the financial statements).

^(b) Date of appointment.

REPORT OF THE BOARD COMMITTEE ON EXECUTIVE REMUNERATION

Details of share options held at 1 April 1996, granted and exercised under the share option schemes during the year, and the balance held at 31 March 1997 are as follows:

	Number of share options			Option exercise price per share	Market price at date of exercise	Usual date from which exercisable	Usual expiry date	
	1 April 1996	Granted	Exercised					31 March 1997
Sir Iain Vallance	55,189	-	-	55,189	264p		07/09/92	07/09/99
	100,207	-	-	100,207	289p		07/12/93	07/12/00
	57,957	-	-	57,957	333p		09/03/95	09/03/02
	20,770	-	-	20,770	430p		04/03/96	04/03/03
	3,073	-	3,073(b)	-	244p	341.5p	14/06/96	14/12/96
	3,760	-	-	3,760	375p		08/12/97	08/12/04
	240,956	-	3,073	237,883				
Sir Peter Bonfield	-	6,460	-	6,460	267p		14/08/01	14/02/02
A W Rudge	60,000	-	-	60,000	264p		07/09/92	07/09/99
	65,622	-	-	65,622	289p		07/12/93	07/12/00
	34,534	-	-	34,534	333p		09/03/95	09/03/02
	10,940	-	-	10,940	430p		04/03/96	04/03/03
	2,745	-	-	2,745	265p		14/06/97	14/12/97
	2,460	-	-	2,460	375p		08/12/97	08/12/04
	2,254	-	-	2,254	306p		14/06/00	14/12/00
	178,555	-	-	178,555				
R P Brace	136,890	-	-	136,890	263p		06/09/92	06/09/99
	18,680	-	-	18,680	289p		07/12/93	07/12/00
	18,020	-	-	18,020	333p		09/03/95	09/03/02
	24,890	-	-	24,890	430p		04/03/96	04/03/03
	4,610	-	4,610(b)	-	244p	375.5p	14/06/96	14/12/96
	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	320p		14/06/98	14/12/98
-	3,876	-	3,876	267p		14/08/01	14/02/02	
	259,005	3,876	4,610	258,271				
M Argent	82,975	-	82,975(c)	-	289p	373.5p	07/12/93	07/12/00
	33,873	-	33,873(c)	-	333p	373.5p	09/03/95	09/03/02
	10,940	-	-(d)	-	430p		04/03/96	04/03/03
	127,788	-	116,848	-				

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

(b) Sir Iain Vallance and Mr Brace each exercised options under the BT Employee Sharesave Scheme, in which all employees of the company are eligible to participate, on 8 July and 7 August 1996, respectively.

(c) Mr Argent exercised options under the BT Employee Share Option Scheme on 21 August 1996.

(d) Options lapsed on 3 September 1996.

Unrealised gains on the above share options at 31 March 1997, based on the market price of the shares at that date, were as follows:

	Options exercisable			Options not exercisable		
	Number of shares	Unrealised gains		Number of shares	Unrealised gains	
		1997 £000	1996(a) £000		1997 £000	1996(a) £000
Sir Iain Vallance	234,123	325	159	3,760	3	4
Sir Peter Bonfield	-	-	-	6,460	12	-
A W Rudge	171,096	252	128	7,459	10	4
R P Brace	228,660	303	166	29,611	26	7
	633,879	880	453	47,290	51	15

(a) Based on options outstanding at 31 March 1996 and the market price of the shares at that date.

The market price of the shares at 31 March 1997 was 445.5p (1996 – 369p) and the range during the year ended 31 March 1997 was 326.5p to 461.5p.

Details of the company's ordinary shares provisionally awarded to each director, as a participant under the Long Term Remuneration Plan (note 26 to the financial statements), were as follows:

	Total number of award shares(a)			Range of value of award(b)		
	1 April 1996	Awarded	Dividends reinvested	31 March 1997	Minimum £000	Maximum £000
Sir Peter Bonfield	-	122,934	2,203	125,137	93	557
A W Rudge	105,006	-	5,039	110,045	98	490
R P Brace	88,448	75,125	5,588	169,161	135	754

(a) Excluding shares purchased by each director under the plan (see page 31).

(b) Based on the market value of the company's shares at 31 March 1997. The minimum figure represents those shares held at 31 March 1997 which will transfer to each director at the end of year five of the plan (1999 to 2001) provided the individual is still employed by the group. The maximum figure represents all shares held at 31 March 1997 which will transfer to each director at the end of year five (1999 to 2001) provided the individual is still employed by the group and that the corporate performance measure has been fully met.

At 31 March 1997, Sir Iain Vallance, Sir Peter Bonfield, Dr Rudge and Mr Brace each had a non-beneficial interest in 62,891 shares (1996 – 95,841) purchased by BT Employee Shares Trustees Limited for allocation to employees under the BT Employee Share Ownership Scheme, and 6,206,481 shares (1996 – 3,292,627) held in trust by Ilford Trustees (Jersey) Limited for allocation to participating employees under the Long Term Remuneration Plan and the Performance Share Plan.

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 1997, the company has been notified of an acquisition of a beneficial holding of 16 ordinary shares by Mr Brace under a personal equity plan. There have been no other changes in the directors' interests in the share capital or in the debentures of the company and its subsidiaries between 31 March 1997 and 20 May 1997.

By order of the Board

Sir Colin Marshall

Chairman of the Board Committee on Executive Remuneration

20 MAY 1997