

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 Combined Code on Corporate Governance (the Code) and complied with the Code.

The Committee's role is to set the remuneration policy for the Chairman, the executive directors and the members of the company's *Executive Committee* (EC). Specifically, the *Remuneration Committee* agrees their service contracts, salaries, other benefits, including bonuses and participation in the company's long-term incentive plans, and other terms and conditions of employment.

It also agrees terms for their cessation of employment and their appointments as non-executive directors of non-BT group companies and other organisations. It also approves the company's new long-term incentive plans, recommends to the Board those plans which require shareholder approval and oversees their operation.

Lord Marshall has chaired the Committee since 1 January 1996. Other members of the *Remuneration Committee* during the year were:

- Dr Iain Anderson
- Sir Anthony Greener (appointed 1 October 2000)
- Neville Isdell
- June de Moller
- Maarten van den Bergh (appointed 1 September 2000)
- Keith Oates (retired 31 December 2000)

Lord Marshall will retire from the BT Board and as chairman of the Committee at the end of the 2001 AGM. He will be succeeded as chairman of the Committee by Sir Anthony Greener.

The Committee met eight times during the 2001 financial year. The Chairman and Chief Executive are invited to attend meetings when appropriate. They are not present when matters affecting their own remuneration arrangements are considered.

Although the Board remains ultimately responsible for both the framework and the cost of executive remuneration, it has delegated prime responsibility for executive remuneration 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 consult on 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 individual performance, company performance, market comparisons and the competitive pressures in the worldwide information technology and communications industry. Our external comparisons look at comparable roles in similar organisations, in terms of size, market sector, business complexity and international scope. To reflect BT's international presence, the company takes account of remuneration packages outside the UK where a particular market 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 (basic salary, annual bonus and the value of any long-term incentives) to be at the upper quartile for exceptional performance.

The *Remuneration Committee* considers that, in the interests of shareholders, it is important to link a significant proportion of the total executive remuneration package to individual and corporate performance. Remuneration policy and arrangements are kept under regular review to achieve this objective and to ensure that the company can attract and retain executives of the necessary quality in a complex business and a highly and increasingly competitive international marketplace.

Packages

The remuneration package for the executive directors, EC members and, in limited cases, the Chairman comprises some or all of the following elements:

Basic salary

Salaries are reviewed annually (although not necessarily increased). Salary increases are made where the Committee believes that adjustments are appropriate to reflect performance, contribution, 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 set objectives. It is measured on a scorecard basis. Targets are set at the beginning of the financial year, and are reviewed throughout the year. Targets are based on key corporate objectives, such as revenue growth, profitability, business development, 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 adjust bonus awards in exceptional circumstances. The on-target and maximum bonuses were reviewed for the 2001 financial year for all EC members and some were increased to reflect benchmarks in the external market.

Current long-term incentives

The BT Equity Incentive Portfolio (the Portfolio), approved at the 2000 AGM, supports the company's remuneration strategy for our most critically-skilled people. The three elements which constitute the Portfolio are:

- Incentive Shares
- Retention Shares, and
- Share Options.

The key drivers of the Portfolio are performance, flexibility and transparency. Following the introduction of the Portfolio, no new awards have been granted under the BT Executive Share Plan or the BT Performance Share Plan. No individual has been awarded all of Incentive Shares, Retention Shares and Share Options.

Incentive Shares

Incentive Shares are the main element of the Portfolio. Awards are granted annually to the executive directors of BT and members of the senior executive team. Awards have been granted to around 2,500 key managers and professionals.

Awards of Incentive Shares normally vest after a performance period of three years, if the participant is still employed by the BT group and a performance target has been met. The performance measure is Total Shareholder Return (TSR) compared with the FTSE 100 companies. At the end of the three-year period, BT's TSR must be in the top 25 performing companies for all the shares to vest. The proportion of shares which vests reduces on a straight-line basis to 50th position, at which point 25% of the shares under award vest. Below 50th position, none of the shares vest.

To encourage exceptional performance, the *Remuneration Committee* has discretion to reward performance in the upper quartile. At the end of the three-year period, if the company is in the top 25 performing companies, the *Remuneration Committee* may increase the award of shares vesting. If BT's TSR is in the top ten companies of the FTSE 100, the increase may double the number of the shares vesting. The discretion will only be exercised if the *Remuneration Committee* is also satisfied that there has been a significant improvement in the company's underlying financial performance. The *Remuneration*

Committee will take account of BT's Corporate Scorecard targets and earnings per share growth.

The initial value of awards of Incentive Shares in the 2001 financial year was 10% to 200% of salary, with the vast majority being below 100%. The first vesting of awards of Incentive Shares is expected to be in 2003. Based on performance to date, none of the shares would vest.

Share Options

Under the Share Options element of the Portfolio, options to acquire BT shares are granted as an alternative to Incentive Shares, primarily for overseas employees and, in the UK, for employees of BT's internet business and/or new recruits. The price at which shares may be acquired is the market price at the date of grant. For options granted in the 2001 financial year, the exercise of the option is generally phased over three years. The grant or exercise of options may be linked to a performance target. Currently, the grant is based on corporate and individual performance. This is kept under review.

Options have been granted over shares with an initial value generally in the range of one times to three times salary with one option with a value of four times salary. Around 1,000 people currently participate in this element of the Portfolio.

Retention Shares

Retention Shares are granted to individuals with critical skills as a recruitment or retention tool. As a result, awards of shares are not generally linked to the satisfaction of a corporate performance target, but may be linked to performance, such as the completion of specific projects.

The length of the retention period before awards vest is flexible. Awards may vest in annual tranches. The shares are transferred at the end of the specified period only if the individual is still employed by the BT group.

The first awards of shares were granted in August 2000. Retention Shares are used only in exceptional circumstances and, to date, less than 20 awards have been made.

BT Deferred Bonus Plan (DBP)

The DBP was established in 1998. Awards in the form of BT shares, were granted to around 260 senior executives during the 2001 financial year in respect of their performance in the 2000 financial year. The awards were generally equivalent in value to 50% of the executive's gross annual bonus. It is intended that the value of deferred bonuses granted in respect of the 2001 financial year will, except in a very limited number of circumstances where higher levels of award are justified, be of a similar value.

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It is anticipated that around 300 senior executives will receive deferred bonuses. The shares are held in trust and transferred to the executive if still employed by the company in three years' time. There are no additional performance measures for the vesting of DBP awards. The first awards granted under the DBP in 1998 are due to vest in July or August 2001. The DBP uses existing shares only.

During the 2001 financial year, the rules of the DBP were amended to permit, in the event of BT terminating a participant's employment, a participant's award to vest at the end of the deferred period where the date of vesting would have fallen during a period of notice and the full notice period is not served. This would not apply where employment is terminated for gross misconduct, breach of contract or serious shortfall in performance.

The rules were also amended so that, on a scheme of arrangement to create a new holding company, awards will roll over into shares in the new company. Without the change, the awards would vest automatically. Awards outstanding at the date of the amendment that roll over would be preserved until the end of the deferred period if a participant leaves employment (other than for gross misconduct). The value of these awards would also be preserved.

Former long-term incentives

BT Share Option Scheme

This scheme expired in January 1995. The last options were granted in December 1994. Details of outstanding options held by the directors and former directors at the end of the 2001 financial year are shown on page 68.

BT Executive Share Plan/BT Performance Share Plan

The last awards under these plans were granted in 1999. Awards of BT shares under the BT Executive Share Plan (ESP) normally vest at the end of five years but only if BT's TSR meets a pre-determined target relative to the other companies in the FTSE 100. The second vesting of awards under the ESP was in the 2001 financial year. On the basis that the company's TSR was at 10th position compared with the other FTSE 100 companies at the end of the five-year performance period, 100% of the shares under award vested in 54 participants on 1 August 2000.

Like the ESP, the vesting of awards of BT shares under the BT Performance Share Plan (PSP) is subject to the company meeting a pre-determined TSR target measured against the FTSE 100 companies. Normally, if the performance target is met and the participant is still employed by the group, the awards will vest after the end of a cumulative three-year cycle. The final awards under the PSP are due to vest in August 2001. Based on

BT's TSR measured over the three financial years to 31 March 2001, ranking it in 38th position, 80% of the shares under award will vest.

During the 2001 financial year, the change of control provisions of the ESP and PSP were amended to align them with those for the Incentive Shares. Vesting is based on performance to the date of change of control, with the Committee having discretion to vest higher amounts, taking other relevant factors into account (for example, length of service, anticipated future employment prospects and underlying company performance). Provision has also been made for the protection of any balance of a participant's award which did not vest on a change of control, if the participant is dismissed (other than for gross misconduct) or is demoted and leaves within twelve months. In addition, the cessation of employment provisions of the ESP and PSP were amended to align them with those for the Incentive Shares.

The rules of the ESP were also amended to permit the preservation of awards where the company terminates a participant's employment and the participant leaves within two years of their expected vesting date, or would have left after the date of preservation had a full notice period been served. This would not apply where employment is terminated by the company for gross misconduct, breach of contract or serious shortfall in performance.

Effect of the rights issue

Following the rights issue announced on 10 May 2001, certain adjustments will be made to the awards and options granted under the plans described above. In the case of the contingent awards granted under the ESP and PSP and the awards of Incentive and Retention Shares, the Board will recommend to the trustee of each relevant trust that sufficient rights are sold nil paid to enable the balance of the rights to be taken up with the proceeds of the sale, so that the new BT shares acquired can be allocated to the relevant awards and be released on the same basis as the awards to which they relate.

In the case of options granted under the BT Share Option Scheme and the Share Options element of the Portfolio, the Board proposes to adjust the number of shares in respect of which options may be exercised and the price at which the shares may be acquired to take account of the rights issue.

Executive share retention

A shareholding programme, which requires executive directors and EC members to build up a shareholding in the company was introduced during the 2001 financial year.

The programme, which is not mandatory, is designed to encourage executive directors and EC members to build up a

shareholding with a value of 100% of their salary over a period of three years.

Pensions

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

Other benefits

Other benefits for the Chairman and executive directors include car and driver, personal telecommunications facilities, medical and dental cover for the director and immediate family and financial counselling. The company has a permanent health insurance policy to provide cover for the Chairman and full-time executive directors and members of the EC who may become permanently incapacitated.

Service agreements

The Chairman and 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 up to two external appointments for which a director may retain the fees.

Non-executive directors' contracts of appointment

Non-executive directors have contracts of appointment. These cover, amongst other things, the initial terms 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 53 in the section of the annual report dealing with corporate governance issues.

Non-executive directors' remuneration

Three-quarters 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 advice on appropriate levels of remuneration.

The basic fee for non-executive directors, which includes membership of one committee, is £30,000 per year. 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 per year for each committee they chair. Lord Marshall is paid an inclusive annual fee of £75,000 (2000 – £75,000), as Joint Deputy Chairman. Sir Anthony Greener, the other Joint Deputy Chairman, is paid an inclusive annual fee of £60,000. Sir Anthony's fee will be increased to £90,000 when he succeeds Lord Marshall as Deputy Chairman following the 2001 AGM.

To further align the interests of the non-executive directors with those of shareholders, the company's policy is to encourage these directors to purchase, on a voluntary basis, £5,000 of BT shares each year. The directors are asked to hold these shares until they retire from the Board. This policy is not mandatory.

Remuneration Review

Directors' remuneration

Sir Christopher Bland was appointed Chairman on 1 May 2001. His annual salary on appointment was £500,000 and he will not be entitled to receive an annual bonus.

From 1 April 2001, Sir Peter Bonfield's salary was increased from £780,000 to £820,000 a year.

Sir Peter Bonfield's annual bonus award in respect of the 2001 financial year is based predominantly on the achievement of group-wide objectives and results measured against the overall BT Corporate Scorecard. He is also bonused on achievement of personal objectives. His on-target bonus for the 2001 financial year was increased from 65% to 75% of salary, of which two-thirds remains targeted against the scorecard and one-third against the achievement of personal objectives. His maximum bonus has been retained at 100% of salary.

Report on directors' remuneration

Directors' remuneration (excluding pension arrangements and deferred bonuses) was as follows:

	Salary and fees		Annual and special bonus		Benefits excluding pension(a)		Total(e)	
	2001 £000	2000 £000	2001 £000	2000 £000	2001 £000	2000 £000	2001 £000	2000 £000
Sir Iain Vallance	342	308	125	400	51	38	518	746
Sir Peter Bonfield	780	725	481	500	50	53	1,311	1,278
P R Hampton(b)	181	–	100	–	5	–	286	–
R P Brace(c)	380	355	130	145	31	24	541	524
B Cockburn(d)	516	490	200	250	45	33	761	773
Lord Marshall	75	75	–	–	–	–	75	75
Sir Anthony Greener	25	–	–	–	–	–	25	–
H Alexander	35	35	–	–	–	–	35	35
J I W Anderson	57	54	–	–	–	–	57	54
L R Hughes	32	8	–	–	–	–	32	8
N Isdell	39	32	–	–	–	–	39	32
J F de Moller	35	20	–	–	–	–	35	20
J K Oates	30	40	–	–	–	–	30	40
M van den Bergh	22	–	–	–	–	–	22	–
Sir John Weston	38	38	–	–	–	–	38	38
	2,587	2,180	1,036	1,295	182	148	3,805	3,623

(a) Includes other benefits as described above. Sir Iain Vallance had use of a car in Scotland.

(b) Philip Hampton joined the company on 1 November 2000.

(c) On the terms of his leaving the company on 31 December 2000, Robert Brace continued to receive his salary and contractual benefits until the earlier of twelve months or until he obtained full-time employment. On 31 March 2001, these payments were discontinued when he was appointed to a new position. Between 31 December 2000 and 31 March 2001, salary of £95,000 was paid to Robert Brace, together with benefits to the value of £5,000. In addition, Robert Brace was paid a sum of £200,000, which was the estimated cost of providing the pension benefits that would have accrued over his notice period.

(d) On the terms of his leaving the company on 31 March 2001, Bill Cockburn will continue to receive his salary and value of his contractual benefits until the earlier of twelve months or until he obtains full-time employment.

(e) In addition deferred bonuses, payable in shares in three years' time, were awarded to Sir Peter Bonfield £481,000 (2000 – £500,000); Philip Hampton £50,000. When added to the amounts paid or currently payable for the 2001 financial year, in the table above, the total remuneration of Sir Peter Bonfield was £1,792,000 (2000 – £1,778,000) and Philip Hampton £336,000.

Bill Cockburn's salary was increased from £495,000 to £520,000 with effect from 1 June 2000 until his retirement on 31 March 2001. Philip Hampton joined the Board on 1 November 2000, on a salary of £435,000 per annum.

For Philip Hampton, Bill Cockburn and members of the EC, annual bonus awards are based on the achievement of a mix of group, divisional and personal objectives.

Philip Hampton's and Bill Cockburn's on-target bonuses for the 2001 financial year were 50% of salary, subject to a maximum of 75%, with Philip Hampton's being guaranteed at a minimum of £100,000 exceptionally in 2001 as part of the recruitment package.

Annual bonus awards to executive directors for the 2001 financial year ranged from 35% to 62% of salary.

Sir Iain Vallance's salary was increased from £325,000 to £350,000 from 1 August 2000. Sir Iain's bonus for the 2001 financial year was £125,000.

On 1 August 2000, awards of 41,552 shares and 48,480 shares under the ESP vested in former directors, Robert Brace and Sir Alan Rudge, respectively. The value of these awards of shares on the vesting date was £361,086 for Robert Brace and £421,291 for

Sir Alan Rudge. Sir Alan Rudge retired as a director on 31 October 1997.

Board changes

Robert Brace and Keith Oates left the BT Board on 31 December 2000. Bill Cockburn left the Board on 31 March 2001. Maarten van den Bergh was appointed to the Board on 1 September 2000. Sir Anthony Greener was appointed a non-executive director on 1 October 2000. Philip Hampton was appointed to the Board as Group Finance Director and a member of the Board on 1 November 2000. Sir Iain Vallance retired as Chairman and left the Board on 1 May 2001. Following his retirement from the Board, Sir Iain has been appointed President Emeritus. Sir Christopher Bland joined the Board as Chairman on 1 May 2001. Yve Newbold, who retired in June 1997, remains on the *Community Support Committee*, for which she received fees of £5,000 in the 2001 financial year (2000 – £5,000).

Termination payments

Sir Peter Bonfield's contract entitles him to 12 months' compensation on termination by BT. His contract will terminate

on 31 December 2002 and as part of his entitlement to 12 months' compensation for termination, he will receive £820,000 in lieu of salary and benefits. On termination by BT or expiry of the contract, Sir Peter's long-term awards will be preserved subject to satisfaction of the performance criteria, which, as in all executive directors' and EC members' contracts, is waived if termination is within 12 months after BT becomes a subsidiary of another company.

Philip Hampton's service contract entitles him to 12 months' compensation on termination by BT after 31 October 2001.

Pensions

Sir Peter Bonfield's pension arrangements 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 widow's pension of two-thirds of his pension. He would have been entitled to a pension of 57% of salary if he had retired on 31 March 2001. If his retirement occurs before 2004, the percentage of salary used to calculate the pension will increase on a uniform basis to the target level at 60. His benefits are provided through a non-approved unfunded arrangement.

Philip Hampton's pension accrues at the rate of one thirtieth of his final salary for each year of service. In addition, a two-thirds widow's pension would be payable on his death.

He is a member of the BT Pension Scheme, but as he is subject to the earnings cap, which is a restriction on the amount of pay which can be used to calculate pensions due from a tax approved pension scheme, the company has agreed to increase his benefits to the target level by means of a non-approved, unfunded arrangement.

Bill Cockburn left the company on 31 March 2001 and his deferred pension was increased to the level it would have been at had he remained in service until age 60. In addition, there would be no actuarial reduction if the deferred pension was to come into payment within 11 months before his 60th birthday.

Robert Brace left the company on 31 December 2000 at which time his pension ceased to accrue.

While Sir Iain Vallance was part-time Chairman and subsequently as President Emeritus, he is a deferred member of the BT Pension Scheme. He is currently receiving a pension, being paid by the company, which in the 2001 financial year amounted to £344,177 (2000 – £340,433). 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.

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)	
	2001 £000	2000 £000	2001 £000	2000 £000	2001 £000	2000 £000
Sir Peter Bonfield	37	119	235	192	683	2,204
P R Hampton	6	–	6	–	66	–
R P Brace	9	17	150	137	118	246
B Cockburn	52	17	94	41	963	317

(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.

Report on directors' remuneration

Directors' interests

The interests of directors and their families in the company's shares at 31 March 2001 and 1 April 2000, or date of appointment if later, are shown below:

Beneficial holdings	No. of shares	
	2001	2000
Sir Iain Vallance	208,570	208,504
Sir Peter Bonfield	10,862(a)	10,583(a)
P R Hampton	780	780(b)
B Cockburn	22,940	22,865
Lord Marshall	2,000	2,000
Sir Anthony Greener	8,936	3,936(b)
H Alexander	930	930
J I W Anderson	5,910	5,910
L R Hughes	6,800	2,100
N Isdell	7,500	2,500
J F de Moller	1,500	1,500
M van den Bergh	1,000	-(b)
Sir John Weston	1,046	1,030
Total	278,774	262,638

(a) Includes 9,606 shares (2000 – 9,393 shares) purchased and held by Sir Peter Bonfield in the ESP (see note 33 to the financial statements).
(b) At date of appointment.

Details of share options held at 31 March 2001 are as follows:

	Number of shares under option 31 March 2001	Option exercise price per share	Usual date from which exercisable	Usual expiry date
Sir Iain Vallance	57,957	333p	09/03/95	09/03/02
	20,770	430p	04/03/96	04/03/03
	3,760	375p	08/12/97	08/12/04
	82,487			
Sir Peter Bonfield	6,460	267p	14/08/01	14/02/02
R P Brace	24,890	430p	04/03/96	04/03/03(a)
	30,180	460p	15/11/96	15/11/03(a)
	23,470	375p	08/12/97	08/12/04(a)
	78,540			
B Cockburn	3,330(b)	518p	14/08/03	14/02/04
Total	170,817			

(a) Robert Brace's options will lapse on 31 December 2001, twelve months after he ceased to be employed by the company.
(b) Option under BT Employee Sharesave Scheme exercisable over a maximum of 1,921 shares for six months from 31 March 2001, the date on which Bill Cockburn ceased employment with the company

All of the above options were granted for nil consideration. No options were granted to or exercised by the directors during the year. The above table also represents the position at 1 April 2000.

It is a term of Sir Christopher Bland's service agreement that (i) he purchases, as soon as permitted under BT's share dealing code, BT shares to the value of at least £1 million; and (ii) as soon as practical after the purchase of the shares (the Invested Shares), the company will grant an option under the Share Options element of the Portfolio over shares to the value of £1 million. So long as Sir Christopher is the legal and beneficial owner of the Invested Shares on 1 May 2004, the options will become exercisable on that date.

Unrealised gains on the above share options at 31 March 2001, 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 shown below:

	Options exercisable			Options not exercisable		
	Number of shares	Unrealised gains		Number of shares	Unrealised gains	
		2001 £000	2000(a) £000		2001 £000	2000(a) £000
Sir Iain Vallance	82,487	125	673	–	–	–
Sir Peter Bonfield	–	–	–	6,460	16	59
B Cockburn	–	–	–	3,330	–	22
R P Brace	78,540	67	589	–	–	44

(a) Based on options outstanding at 31 March 2000 and the market price of the shares at that date.

The market price of the shares at 31 March 2001 was 510p (2000 – 1,175p) and the range during the 2001 financial year was 469p to 1,172p.

Details of the company's ordinary shares provisionally awarded to directors, as participants under the ESP and as awards of Incentive Shares and Retention Shares (note 33 to the financial statements), are as follows:

	Total number of award shares(a)						Range of value of award(c/d)	
	1 April 2000	Awarded	Vested	Lapsed	Dividends reinvested	31 March 2001	Minimum £000	Maximum £000
Sir Peter Bonfield	390,207	179,516	–	–	16,172	585,895	304	2,988
P R Hampton(d)	–	59,361	–	–	828	60,189	307	307
B Cockburn	96,935	–	–	–	2,657	99,592	–	508
R P Brace(b)	269,954	43,728	41,552	77,449	6,592	201,273	192	1,026
Sir Alan Rudge(b)	48,480	–	48,480	–	–	–	–	–
Total	805,576	282,605	90,032	77,449	26,249	946,949	803	4,829

(a) Excluding shares purchased by each director and held under the ESP (see page 68).

(b) On 1 August 2000, total awards of 41,552 and 48,480 shares under the ESP vested in Robert Brace and Sir Alan Rudge, respectively. The five-year performance cycle for those awards ended on 31 July 2000 and, on the basis of BT's TSR position against the FTSE 100, 100% of the shares under award, including reinvested dividends, vested on 1 August 2000.

(c) Based on the market value of the company's shares at 31 March 2001. The minimum figure represents those shares held at 31 March 2001 which will transfer to each director under the ESP at the end of year five of the plan (2001 to 2004) and at the end of year three for Incentive Shares (2003). The maximum figure represents all shares held at 31 March 2001 which will transfer to each director at the end of year five of the ESP (2001 to 2004) and at the end of year three for Incentive Shares (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 plans give discretion to preserve awards of shares on cessation.

(d) Philip Hampton was granted an award of Retention Shares over 59,361 shares, equivalent to 100% of salary. This award will vest, provided that he is still employed by the company, on 1 November 2003, the third anniversary of the date of the commencement of his employment with the company. The vesting of the shares is not subject to the satisfaction of a corporate performance target.

(e) At the next grant to participants of awards of Incentive Shares, Sir Christopher Bland will be granted an award equal to twice salary. After the grant of that award of Incentive Shares, he will not be eligible to receive further awards of Incentive Shares, Retention Shares or grants of Share Options until 1 May 2004.

Details of awards of shares under the ESP and awards of Incentive Shares which would vest based on BT's TSR compared with the other companies in the FTSE 100 for the relevant performance period up to 31 March 2001 are as follows:

	No. of shares under award	Expected vesting date	31 March 2001		31 March 2000	
			TSR position	Percentage of shares vesting	TSR position	Percentage of shares vesting
Sir Peter Bonfield	125,210	2001	28	100	3	100
	105,964	2002	34	90	3	100
	76,603	2003	38	80	5	100
	184,974	2003	91	–	–	–
	68,205	2004	86	–	–	–
B Cockburn	53,028	2003	38	80	5	100
	46,564	2004	86	–	28	100
R P Brace	77,625	2001	28	100	3	100
	57,637	2002	34	90	3	100
	38,887	2003	38	80	5	100

Report on directors' remuneration

The following deferred bonuses have been awarded to the directors under the DBP. 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.

	1 April 2000	Awarded	Dividends reinvested	31 March 2001	Market value	
					2001 £000	2000 £000
Sir Peter Bonfield	123,938	57,537	4,857	186,332	950	1,456
B Cockburn	32,345	–	887	33,232	169	380
R P Brace	14,260	–	390	14,650	75	168

At 31 March 2001, Sir Iain Vallance, Sir Peter Bonfield, Philip Hampton and Bill Cockburn each had a non-beneficial interest in 97,578 shares (2000 – 78,454) purchased by BT Employee Shares Trustees Limited for allocation to employees under the BT Employee Share Ownership Scheme, and 19,144,802 shares (2000 – 19,292,068) held in trust by Ilford Trustees (Jersey) Limited for allocation to employees under the employee share schemes.

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 2001, Sir Christopher Bland has notified the company of the acquisition of 220,000 shares on 15 May 2001. 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 2001 and 22 May 2001.

Executive Committee

The aggregate remuneration of members of the EC, other than directors, for services in all capacities during the 2001 financial year was as follows:

	2001 £000
Salaries and benefits	3,699
Annual bonuses	1,599
Termination and retention payments	97
Provision for long-term incentive awards	5,693
Company pension contributions	936
Total	12,024

Options over 5,058 shares under the BT Employee Sharesave Scheme were granted to EC members during the 2001 financial year.

The members of the EC beneficially own less than 1% of the company's outstanding ordinary shares.

Directors' service agreements and contracts of appointment

The dates on which the Chairman's and each current executive director's 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 contract
Sir Christopher Bland	1 May 2001	(a)
Sir Peter Bonfield	1 January 1996	(b)
P R Hampton	1 November 2000	(c)

(a) Sir Christopher Bland entered into a initial service agreement on 1 May 2001, terminable on 12 months' notice by either the company or the director.

(b) Sir Peter Bonfield entered into a new contract on 4 May 2001, which continues to 31 December 2002 terminable earlier by the company on payment of 12 months' compensation or by the director on six months' notice.

(c) Philip Hampton entered into a contract on 1 November 2000 for an initial period of two years. The contract is terminable on 12 months' notice ending at any time after the initial period by either the company or the director.

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	18 July 2001
Sir Anthony Greener	1 October 2000	(a)
H Alexander	1 June 1998	31 May 2002(c)
J I W Anderson	1 November 1995	(b)
L R Hughes	1 January 2000	31 December 2002
N Isdell	1 July 1998	30 June 2001
J F de Moller	1 September 1999	31 August 2002
M van den Bergh	1 September 2000	(a)
Sir John Weston	1 October 1998	30 September 2001

(a) Each director's contract of appointment is for an initial period of three years. After that period the contract is terminable on 12 months' notice by either the company or the director.

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

(c) Renewable by mutual agreement.

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

Joint Deputy Chairman and Chairman of Remuneration

Committee

22 May 2001

Statement of directors' responsibility for preparing the financial statements

The directors are required by law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss and cash flows of the group for that period.

The directors consider that, in preparing the financial statements for the year ended 31 March 2001 on pages 73 to 131 the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. The directors also consider that all applicable accounting standards have been followed and confirm that the financial statements have been prepared on the going concern basis.

The directors are responsible for ensuring that the company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors are also responsible for taking such steps that are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The auditors' responsibilities are stated in their report to the shareholders.