

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, the members of the company's *Operating Committee* (OC) and senior executives reporting to the Chief Executive. 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 changes in the company's long-term incentive plans, recommends to the Board those plans which require shareholder approval and oversees their operation.

Sir Anthony Greener has chaired the Committee since 18 July 2001 in succession to Lord Marshall who retired at the end of the 2001 AGM. Other members of the *Remuneration Committee* during the year were:

- Dr Iain Anderson (retired 30 September 2001)
- Maarten van den Bergh
- Lou Hughes (appointed 25 June 2001)
- Neville Isdell (retired 14 January 2002)
- June de Moller (retired 14 January 2002)
- Carl Symon (appointed 1 February 2002)

The Committee met seven times during the 2002 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.

Remuneration Policy

BT's stated 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 and business complexity in the UK and overseas. 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 sustained and excellent performance.

The *Remuneration Committee* considers that it is important to link a significant proportion of the total executive remuneration package to individual, line of business and corporate performance. Remuneration arrangements and performance targets are reviewed annually to achieve this.

Where any significant changes are proposed, these will be discussed with BT's principal shareholders and the main representative groups of the institutional shareholders.

Packages

The remuneration package for the executive directors, members of the OC and senior executives reporting to the Chief Executive comprises:

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 the achievement of results against these set objectives. Performance is measured on a scorecard basis. Targets are set at the beginning of the financial year, and performance is reviewed throughout the year. Targets for the 2002 financial year were based on key corporate objectives such as profitability, cash flow, the debt reduction programme, the group restructuring and customer satisfaction, as well as line of business and personal objectives. Specific weights were attached to each objective. The Committee has the flexibility to adjust bonus awards in exceptional circumstances.

Deferred Bonus

Awards in the form of BT shares are granted under the Deferred Bonus Plan (DBP) to executive directors and senior executives, linked to the value of their annual bonus. Awards made during the 2002 financial year in respect of performance in the 2001 financial year were equivalent in value to 50% to 100% of the executive's gross annual bonus.

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 vested in August 2001.

Current long-term incentives

The BT Equity Incentive Portfolio (the Portfolio) is designed to ensure that equity participation is a significant part of overall remuneration.

No individual has received awards under all elements of the Portfolio.

Incentive Shares

Incentive Shares have been the main element of the Portfolio. The value of awards made to executive directors and the senior executive team in the 2002 financial year was 100% to 200% of salary.

Awards of Incentive Shares under the Incentive Share Plan (ISP) 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.

The 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 first vesting of awards of Incentive Shares is expected to be in 2003. Based on performance to date, none of the shares would vest.

Retention Shares

Retention Shares are granted under the Retention Share Plan (RSP) 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.

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

Retention Shares are used only in exceptional circumstances and, to date, less than 20 awards have been made.

Share Options

Options to acquire BT shares have been granted under the Global Share Option Plan (GSOP), in the past, 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 2002 financial year, the exercise of the option is generally phased over three years. Other

than for new recruits, the grant has been based on corporate and individual performance. Options have been granted over shares with an initial value generally in the range of one to three times salary.

As part of his recruitment package, an option was granted to the Chief Executive with an initial value of four times salary exercisable in three years, subject to a performance measure being met. The performance measure is relative TSR compared with the FTSE 100. BT's TSR must be in the upper quartile for all of the options to become exercisable. At median, 40% of the options will be exercisable. Below that point, none of the options may be exercised.

Annual package – 2003 financial year

The Committee, in pursuit of its aim to establish a simple, focused and more leveraged approach to reward, has reviewed how effectively the stated policy has been applied. As a result, the Committee has greatly reduced the number of objectives in the annual bonus plan. In the 2003 financial year, the objectives will be earnings per share, cash flow and customer satisfaction. On-target and maximum bonus levels, as a percentage of salary, remain unchanged at 50% and 75% (Chief Executive 85% and 130%, under his service agreement).

It is intended that the value of deferred bonus awards granted in respect of the 2002 financial year will be 50% of gross annual bonus (compared with the previously agreed 50% to 100%), except in the case of the Chief Executive, whose award in the 2003 financial year will be 100% of his gross annual bonus in accordance with his service agreement.

Share Options will replace Incentive Shares as the main element of equity participation for annual awards. Options granted in the 2003 financial year will be exercisable in three years only if a performance target has been met. Whilst the Committee would not normally expect the initial value of annual grants of options to exceed three times salary, in the 2003 financial year, as we embark on a radical business transformation and rejuvenation programme, the initial value may be four times salary in a limited number of cases. These grants will not be made to more than ten people.

The initial value of those options that are granted subject to a TSR measure will not exceed 2.5 times salary. The measure will be relative TSR compared with the FTSE 100. At the end of the three year period, BT Group's TSR must be in the upper quartile for all of the options to be exercisable. At median, 30% of the options will be exercisable. Below that point, none of the options may be exercised. If the performance measure is not met at the first measurement, it may be re-tested against a fixed base in years four and five. If TSR has not reached the median at the end of the fifth year, previously unexercisable options will lapse.

To provide an additional reward for exceptional performance in exceeding business goals, further options with an initial value not exceeding 1.5 times salary may be granted in the 2003 financial year to the senior executives

most responsible for delivering BT's strategic plan. These options will be subject to a more stringent performance measure. For these options to become exercisable, there must be a 35% compound growth in BT's earnings per share over the next three years (equivalent to 22 pence per share at the end of the 2005 financial year). There will be no opportunity to re-test if this target is not achieved.

Under his service agreement, the Chief Executive is entitled in the 2003 financial year to options with an initial value of four times salary. These options will be subject to the above performance criteria

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 2002 financial year are shown on page 65.

BT Executive Share Plan/BT Performance Share Plan

The last awards under these plans were granted in 1999. Awards of 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 third vesting of awards under the ESP was in the 2002 financial year. On the basis that the company's TSR was at 36th position compared with the other FTSE 100 companies at the end of the five-year performance period, 85% of the shares under award vested in 62 participants on 1 August 2001.

Like the ESP, the vesting of awards of shares under the BT Performance Share Plan (PSP) was subject to the company meeting a pre-determined TSR target measured against the FTSE 100. Normally, if the performance target was met and the participant was still employed by the group, the awards would vest after the end of a cumulative three-year cycle. The final awards under the PSP vested in August 2001. As BT's TSR, measured over the three financial years to 31 March 2001, ranked it in 38th position, 80% of the shares under award vested.

Rule changes

During the 2002 financial year, the rules of the GSOP were amended to permit in exceptional circumstances the performance measure and target to be determined after the grant of an option, but within a limited period. This is because there may be occasions when these are under review or there are practical considerations preventing a target being set.

The GSOP rules were also amended to enable the BT group to obtain a tax deduction when issuing new shares to meet the exercise of options.

The rules of the ESP and DBP were amended to provide for the awards of certain participants under these plans to vest on a date later than that provided for in the rules.

The rules of the ESP, ISP, DBP and RSP were amended in connection with the scheme of arrangement

and demerger, principally to enable awards, generally, to roll over into the appropriate number of shares in the company employing the participant after the demerger (BT Group or mmO2, as appropriate).

Effect of the rights issue

Following the rights issue announced on 10 May 2001, certain adjustments were 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 Trustee sold sufficient rights "nil" paid to enable the balance of the rights to be taken up using the proceeds of the sale. The newly-acquired shares were allocated to the relevant awards and have been or will 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 GSOP, the Board adjusted 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.

Scheme of arrangement and demerger

Share Options

On the scheme of arrangement, existing unexercised executive options, granted under the BT Share Option Scheme and the GSOP, were exchanged for options over shares in the new holding company of the optionholder's employing company after the demerger.

Options were released and exchanged for replacement options granted under Legacy Option Plans adopted by BT Group and mmO2. The replacement options are on the same terms and are exercisable between the same dates as the original options for which they were exchanged. The terms of the exchange ensured that the total amount payable on exercise and any gain or loss arising had the option been exercised at the time of exchange were the same before and after the exchange.

BT Executive Share Plan, BT Incentive Share Plan, BT Retention Share Plan and BT Deferred Bonus Plan

Performance-related awards to key individuals, using TSR as the measure, were outstanding at the date of demerger under the ESP and ISP. For awards that were more than four years into their performance period (ie 1997 ESP), the measurement was accelerated to the point of the restructuring. These awards have been banked on the accelerated performance achieved. On this basis, 32.5% of the 1997 ESP will vest on 1 August 2002. Normal vesting otherwise applies.

For awards that were less than four years into their performance period, performance measurement will continue to apply until the normal vesting date. Performance will be assessed using BT's TSR in the period leading up to the demerger and after that the TSR of the holding company of the participant's employing company (BT Group or mmO2, as appropriate).

The shares under award for each employee have been adjusted so that the awards are over shares of the holding company of the participant's employing company with an equivalent value.

Awards of shares under the DBP and RSP are not performance related. Vesting is normally dependent upon remaining in employment until the end of the deferred/retention period. Awards under these plans will continue until their normal maturity date and then be satisfied in the shares of the holding company of the participant's employing company (BT Group or mmO2, as appropriate). The shares under award for each employee have been adjusted accordingly.

Adjustment

The adjusted value of awards of shares and options under the BT executive share plans was determined using the average price of "old BT" shares, ie the combined prices of BT Group and mmO2 shares over the 20 dealing days following the demerger. The average combined price of "old BT" shares over that 20 day period was 353.60 pence and the average BT Group share price was 267.91 pence. This gave a factor for the adjustment of awards over BT shares into BT Group shares of 1.3198. Each BT share under award or option therefore became an award or option over 1.3198 BT Group shares (eg an option over 1,000 shares was replaced by one for 1,319 BT Group shares). For options, the option prices were adjusted by multiplying those prices by a factor of 0.75767.

Executive share retention

A shareholding programme, which encourages executive directors and OC 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 OC 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 who joined the company prior to 1 April 2001, 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. Those with longer BT service have undertakings of pension benefits of two-thirds of final salary payable at normal retirement age (inclusive of the pension equivalent of any retirement cash lump sum) plus 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 and bonuses, other benefits and long-term incentives are excluded.

BT closed its final salary pension arrangements to new recruits with effect from 31 March 2001 and this has also

been reflected in the retirement provision granted to executive directors and other senior executives hired since that date.

For these executive directors and other senior executives retirement provision is generally made on a defined contribution basis where the company agrees to pay a fixed percentage of the executive's salary each year towards the provision of retirement benefits. Typically this might be an amount equal to 20% to 30% of salary. On death-in-service, a lump sum equal to four times annual salary is payable.

Other benefits

Other benefits for the Chairman and executive directors include car and in some cases 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 executive directors and members of the OC 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 service agreement 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, including serving on one Board committee, and supplementary fees for additional work, such as being a member of more than one Board committee.

Non-executive directors are normally appointed for an initial period of three years. During that period, either party can give the other at least three months' notice. At the end of the period the appointment may be continued by mutual agreement.

Non-executive directors' remuneration

Six of the directors on the 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 directors' 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. Sir Anthony Greener, who chairs the *Remuneration Committee* and the *Audit Committee*, is paid an inclusive annual fee of £90,000, as Deputy Chairman.

To align further 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 is £500,000.

Ben Verwaayen joined the company on 14 January 2002 on an annual salary of £700,000 and became Chief Executive on 1 February 2002. Under his service agreement, Ben Verwaayen is entitled to a pro rata on target bonus for the 2002 financial year of £122,000. This was increased by the *Remuneration Committee* to £152,000 to reflect corporate performance.

Directors' remuneration payable in respect of their services as directors of BT (excluding pension arrangements and deferred bonus awards) was as follows:

	Salary and fees		Annual and special bonus		Benefits excluding pension ^a		Total ^{cfj}	
	2002 £000	2001 £000	2002 £000	2001 £000	2002 £000	2001 £000	2002 £000	2001 £000
Sir Christopher Bland	458	–	–	–	3	–	461	–
B Verwaayen ^{fhk}	151	–	152	–	36	–	339	–
P Danon ^{fn}	164	–	300	–	16	–	480	–
A Green ^{fn}	156	–	200	–	10	–	366	–
Dr P Reynolds ^{fn}	147	–	180	–	11	–	338	–
Sir Anthony Greener	86	25	–	–	–	–	86	25
L R Hughes	36	32	–	–	–	–	36	32
Baroness Jay ^h	7	–	–	–	–	–	7	–
J F Nelson ^h	7	–	–	–	–	–	7	–
C Symon ^h	8	–	–	–	–	–	8	–
M van den Bergh	40	22	–	–	–	–	40	22
H Alexander	27	35	–	–	–	–	27	35
Dr J I W Anderson ⁱ	29	57	–	–	–	–	29	57
Sir Peter Bonfield ^{ce}	683	780	574	481	53	50	1,310	1,311
R P Brace ^m	–	380	–	130	–	31	–	541
B Cockburn ^b	–	516	–	200	–	45	–	761
P Hampton ^{cd}	435	181	285	100	27	5	747	286
N Isdell ^g	96	39	–	–	–	–	96	39
Lord Marshall	22	75	–	–	–	–	22	75
J F de Moller	27	35	–	–	–	–	27	35
J K Oates	–	30	–	–	–	–	–	30
Sir Iain Vallance ^{al}	29	342	–	125	4	51	33	518
Sir John Weston	29	38	–	–	–	–	29	38
	2,637	2,587	1,691	1,036	160	182	4,488	3,805

^aIncludes other benefits as described above. Sir Iain Vallance had use of a car in Scotland.

^bOn the terms of his leaving the company on 31 March 2001, Bill Cockburn was entitled to salary and benefits for one year. In the 2002 financial year, he received a salary of £520,000 and benefits of £113,000.

^cIn addition, deferred bonuses, payable in shares in three years' time, were awarded in 2001 to Sir Peter Bonfield £481,000; Philip Hampton £50,000. When added to the amounts paid for the 2001 financial year, in the table above, the total remuneration of Sir Peter Bonfield was £1,792,000 and Philip Hampton £336,000.

^dOn the terms of his leaving the company on 30 April 2002, a termination payment of £217,500 was made to Philip Hampton, equivalent to the balance of the initial period of his service agreement together with a sum of £9,000 in respect of benefits for that period. The estimated cost of providing Philip Hampton with the level of pension benefits to which he would have been entitled had he remained in pensionable service until 31 October 2002 was £87,000.

^eOn the terms of his leaving the company on 31 January 2002, Sir Peter Bonfield will receive the sum of £820,000 payable in 12 monthly instalments of which £137,000 was received in the 2002 financial year. He will also receive benefits for one year of which £25,000 was received in the 2002 financial year. Sir Peter also received a payment equivalent to his annual on-target bonus of £615,000. The estimated cost of providing Sir Peter with one additional year of pension service is £512,000.

^fThe bonuses of Pierre Danon, Andy Green and Paul Reynolds relate to the whole year and have not been apportioned between their Executive Committee and Board roles. In addition, deferred bonuses payable in shares in three years' time, were awarded to Ben Verwaayen £152,000, Pierre Danon £150,000, Andy Green £100,000 and Paul Reynolds £90,000. When added to the amounts paid or payable for the 2002 financial year, in the table above, the total remuneration of Ben Verwaayen was £491,000; Pierre Danon £630,000; Andy Green £466,000 and Paul Reynolds £428,000.

^gThis includes fees of £64,000 received by Neville Isdell in the 2002 financial year as Chairman designate of Yell.

^hNone of these directors was previously a director of British Telecommunications plc.

ⁱDr Anderson receives fees of £12,000 per annum as Chairman of the BT Scotland Board. From the date of his retirement from the BT Board until 31 March 2002, he received fees of £6,000.

^jIncluded in this total and in note f is the remuneration received by, or payable to, directors of BT Group plc for their services since the completion of the BT restructuring on 19 November 2001. The aggregate emoluments of the directors amounted to £3,018,000. The aggregate amount paid to directors as deferred bonuses payable in shares was £492,000. The aggregate of contributions paid under defined contribution arrangements was £3,975. Retirement benefits are accruing to two directors under defined contribution arrangements and to four directors under a defined benefit scheme. The emoluments for the highest paid director for the period amounted to £749,000.

^kBen Verwaayen is entitled to relocation expenses of up to £200,000. No payments were made by the company in this regard during the 2002 financial year. He is also entitled to a housing allowance of £250,000 per annum for three years of which £36,000 was received in the 2002 financial year and this is included in the table above.

^lSir Iain Vallance, following his retirement from the Board, will receive fees as President Emeritus of £350,000 per annum until 31 July 2002. He received £321,000 for the 2002 financial year. He will also receive benefits for one year of which £38,000 was received in the 2002 financial year. He is entitled to a bonus of £600,000 if his contract is still in force on 31 July 2002.

^mRobert Brace received a payment of £4,000 in lieu of benefits for the 2002 financial year.

Pierre Danon, Andy Green and Paul Reynolds joined the Board on 19 November 2001 on salaries of £450,000, £425,000 and £400,000, respectively. Philip Hampton's salary of £435,000 remained unchanged during the 2002 financial year. Bonus awards for these directors are based on a mix of group, line of business and personal objectives. Their on-target bonuses for the 2002 financial year were 50% of salary, subject to a maximum of 75%.

Annual bonus awards to executive directors ranged from 45% to 70% of annual salary.

Following this year's salary review there will be no increase on 1 June 2002 to basic salaries of directors.

Ian Livingston joined the Board on 8 April 2002 on a salary of £450,000.

Sir Peter Bonfield's pro rata bonus in respect of the 2002 financial year up until leaving the Board on 31 January 2002 was based predominantly on the achievement of group-wide objectives and results measured against the overall BT scorecard. He was also bonused on the achievement of personal objectives. His on-target bonus for the 2002 financial year was 75% of salary of which two-thirds was targeted against the scorecard and one-third against the achievement of personal objectives. His maximum bonus was 100% of salary.

On 1 August 2001, separate awards of 7,531 shares under the DBP vested in former directors Robert Brace and Bill Cockburn. The value of each of these awards on the vesting date was £36,041. In addition, on the same date an award of 87,589 shares under the ESP vested in Robert Brace, the market value of which on the date of vesting was £419,177.

On 2 January 2002, an award of 189,575 shares under the ESP and 27,620 shares under the DBP vested in Sir Peter Bonfield. The market prices of those awards on the date of vesting were £483,416 and £70,431 respectively.

Board changes

Sir Iain Vallance retired as Chairman and left the Board on 1 May 2001, when he was appointed President Emeritus. He was succeeded as Chairman by Sir Christopher Bland.

Lord Marshall retired as Deputy Chairman and left the Board on 18 July 2001.

Dr Iain Anderson retired as a director on 30 September 2001.

Pierre Danon, Andy Green and Paul Reynolds joined the Board on 19 November 2001.

Helen Alexander, Neville Isdell, June de Moller and Sir John Weston retired as directors on 14 January 2002.

Baroness Jay, John Nelson, Carl G Symon and Ben Verwaayen joined the Board on 14 January 2002.

Sir Peter Bonfield retired as Chief Executive and left the Board on 31 January 2002. He was succeeded by Ben Verwaayen.

Yve Newbold, who retired from the Board in June 1997, remains a member of the Community Support Committee for which she received fees of £5,000 in the 2002 financial year (2001 – £5,000).

Loans

Prior to their appointment to the Board on 19 November 2001, Pierre Danon and Paul Reynolds each had an interest free loan from the company of £375,000 and £300,000, respectively to cover relocation expenses. The loans are repayable over ten years. At 31 March 2002, Pierre Danon owed £318,750 and Paul Reynolds owed £300,000. During the 2002 financial year, the maximum amount outstanding was £675,000, being the combined value of the loans to Pierre Danon and Paul Reynolds at their date of appointment.

Termination payments

Ben Verwaayen's contract entitles him on termination of his contract by BT to the payment of £700,000 and, in addition, if the termination occurs during his first year of employment, he will be entitled to be paid a pro rata amount of £700,000 for the part of the year remaining.

The contracts of Pierre Danon, Andy Green, Ian Livingston and Paul Reynolds entitle them on termination of their contract by BT to payment of salary and the value of benefits until the earlier of 12 months' from notice of termination or the director obtaining full-time employment.

If the contract of an executive director is terminated by BT within one year after BT entering into a scheme of arrangement or becoming a subsidiary of another company, he will be entitled to receive the higher of that current year's on target bonus or the previous year's bonus, the market value of shares awarded under an employee share ownership plan or deferred bonus plan that have not vested together with a year's salary and the value of any benefits.

Pensions

Sir Christopher Bland is not a member of any of the company pensions schemes, but the company matches his contributions, up to 10% of the earnings cap, to a personal pension plan. Company contributions of £8,745 were payable in respect of the 2002 financial year. The earnings cap is a restriction on the amount of pay which can be used to calculate contributions and benefits due from a tax approved pension scheme.

Ben Verwaayen is not a member of any of the company's pension schemes, but the company has agreed to pay an amount equal to 20% of his salary towards his own pension arrangements. No amounts were paid in the 2002 financial year. BT also provides him with a lump sum death in service benefit of four times his salary.

Ian Livingston is not a member of any of the company's pension schemes, but the company has agreed to pay an amount equal to 30% of his salary towards his own pension arrangements. BT also provides him with a lump sum death in service benefit of four times his salary.

Pierre Danon'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 the company has agreed to increase his benefits to the target level by means of a non-approved, unfunded arrangement.

Andy Green is a member of the BT Pension Scheme. From 31 December 1997 the company has been purchasing an additional 203 days of pensionable service each year to bring his pensionable service at age 60 up to 40 years. A two-thirds widow's pension would be payable on his death.

Paul Reynolds is a member of the BT Pension Scheme. From 1 July 1996 the company has been purchasing an additional 109 days of pensionable service each year to bring his pensionable service at age 60 up to 40 years.

A two-thirds widow's pension would be payable on his death.

Philip Hampton left the company on 30 April 2002. His pension accrued 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 was a member of the BT Pension Scheme, but as he was subject to the earnings cap, the company agreed to increase his benefits to the target level by means of a non-approved, unfunded arrangement. On leaving the company his deferred pension was increased to the level it would have been had he completed two years' service.

Sir Peter Bonfield left the company on 31 January 2002. His pension arrangements provided for a pension of two-thirds of his final salary at age 60, inclusive of retained benefits from his previous employer, and a widow's pension of two-thirds of his pension. On leaving he was granted an additional one year's pensionable service which brought his accrued pension to 62.7% of his final salary, inclusive of retained benefits from his previous employer. Under the terms of his pension arrangements the pension was put into payment on leaving service without an actuarial reduction being applied.

Sir Iain Vallance was part-time Chairman and subsequently President Emeritus, and is a deferred member of the BT Pension Scheme. He is currently receiving a pension, being paid by the company, which in the 2002 financial year amounted to £355,535 (2001 – £344,177). 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, including those referred to above, 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	
	2002 £000	2001 £000	2002 £000	2001 £000	2002 £000	2001 £000
P Danon	6	–	20	–	57	–
A Green	7	–	99	–	93	–
Dr P Reynolds	14	–	87	–	180	–
Sir Peter Bonfield ^d	84	37	321	235	1,785	683
P R Hampton ^e	23	6	29	6	259	66
R P Brace	–	9	–	150	–	118
B Cockburn	–	52	–	94	–	963

^aThe increase in accrued pension during the year excludes any increase for inflation.

^bThe 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.

^cThe 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.

^dAs explained in note e to the table on page 62, Sir Peter Bonfield's pension benefits were increased on leaving the company. The entitlement shown above is after taking account of this increase.

^eAs explained in note d to the table on page 62, Philip Hampton's pension benefits were increased on leaving the company. The entitlement shown above is after taking account of this increase.

Directors' interests

The interests of directors and their families in the company's shares at 31 March 2002 (BT Group plc) and 1 April 2001 (British Telecommunications plc), or date of appointment if later, are shown below:

Beneficial holdings	No. of shares	
	2002	2001
Sir Christopher Bland	673,876	— ^a
B Verwaayen	387,876	— ^a
Dr P Reynolds	34,364	34,098 ^{a,b,c}
A Green	62,316	62,316 ^{a,d}
P Danon	29,590	23,628 ^a
Sir Anthony Greener	11,615	8,936
L Hughes	6,800	6,800
M van den Bergh	4,800	1,000
J F Nelson	50,000	800 ^a
C G Symon	3,819	3,819 ^a
Baroness Jay	—	— ^a
P Hampton	1,014	780
Total	1,266,070	142,177

^aAt date of appointment.

^bIncludes 2,462 shares purchased and held by Paul Reynolds in the ESP (see note 34 to the financial statements).

^cPaul Reynolds purchased 50 shares on 12 April 2002 and 50 shares on 15 May 2002 as a participant in the BT Group Employee Share Investment Plan.

^dIncludes 4,196 shares purchased and held by Andy Green in the ESP (see note 34 to the financial statements).

Details of share options held at 31 March 2002 are as follows:

	Number of shares under option 31 March 2002 ^a	Option exercise price per share	Usual date from which exercisable	Usual expiry date ^b
Sir Iain Vallance ^c	30,528	293p	04/03/96	04/03/03
	5,526	255p	08/12/97	08/12/04
Sir Christopher Bland	314,244 ^d	318p	01/05/04	01/05/11
B Verwaayen	1,121,121 ^e	250p	11/02/05	11/02/12
Dr P Reynolds	1,483	465p	19/11/01	13/05/02
	4,555	218p	14/02/07	14/08/07
A Green	567	653p	19/11/01	13/05/02
Total	1,478,024			

^aPrior to the demerger, options under the BT Share Option Scheme and the BT Global Share Option Plan were surrendered by participants. Those options were replaced by options over BT Group shares which were granted on 17 December 2001 under the BT Group Legacy Option Plan. The value of the replacement options was determined by averaging the combined share price of the BT Group plc and the mmO2 plc shares over the 20 dealing days following the demerger on 19 November 2001 (see note 34 to the financial statements).

^bOptions under the BT Employee Sharesave Scheme became exercisable on the scheme of arrangement and lapsed on 13 May 2002 (see note 34 to the financial statements).

^cSir Iain Vallance exercised an option over 85,187 shares at an option price of 226p on 27 February 2002. This option under the BT Group Legacy Option Plan replaced an option over 57,957 shares with an option price of 333p granted in 1992: the market price of the shares on the date of exercise was 263p per share. In addition, compensation in respect of the September 1997 special dividend was paid, amounting to £26,000.

^dOption granted on 22 June 2001. It was a term of Sir Christopher Bland's initial service agreement that (i) he purchased, as soon as permitted under the 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 would grant a share option 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 option will become exercisable on that date.

^eIn accordance with the terms of his service agreement, an option was granted to Ben Verwaayen on 11 February 2002. The option will become exercisable on the third anniversary of its date of grant subject to performance criteria being met.

Details of share options held at 1 April 2001 are as follows:

	Number of BT ^a shares under option 1 April 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
Sir Peter Bonfield	6,460	267p	14/08/01	14/02/02 ^b
R P Brace	24,890	430p	04/03/96	04/03/03 ^c
	30,180	460p	15/11/96	15/11/03 ^c
	23,470	375p	08/12/97	08/12/04 ^c
B Cockburn	3,330	518p	14/08/03	14/02/04 ^d
Total	170,817			

^aShares in British Telecommunications plc.

^bSir Peter Bonfield exercised the option over 6,460 shares (adjusted to 7,194 shares as a result of the rights issue) at 240p per share on 15 August 2001. The market price of the shares on the date of exercise was 448p per share. In addition, compensation in respect of the September 1997 special dividend was paid, amounting to £3,000.

^cRobert Brace exercised an option over 34,496 shares at 255p per share on 19 December 2001. This was in respect of an option granted in 1994 over 23,470 BT shares at an option price of 375p per share which was replaced by an option granted under the BT Group Legacy Option Plan (see note 34 to the financial statements). The market price of the shares on the date of exercise was 255p per share. His remaining options lapsed on 31 December 2001.

^dBill Cockburn's option under the BT Employee Sharesave Scheme lapsed on 30 September 2001.

Unrealised gains on the above share options at 31 March 2002, based on the market price of the shares at that date (280p), 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	
		2002 £000	2001 ^a £000		2002 £000	2001 ^a £000
Sir Christopher Bland	–	–	–	314,244	–	–
B Verwaayen	–	–	–	1,121,121	339	–
Dr P Reynolds	1,483	–	–	4,555	3	–
A Green	567	–	–	–	–	–
Sir Peter Bonfield	–	–	–	6,460	–	16
Sir Iain Vallance	36,054	–	125	–	–	–
R P Brace	78,540	–	67	–	–	–
B Cockburn	–	–	–	3,330	–	–

^aBased on options outstanding at 31 March 2001 and the market price of the shares at that date.

The market price of the shares at 31 March 2002 was 280p (2001 – 510p) and the range during the period from 19 November 2001 to 31 March 2002 was 216p – 290p. The range of market prices for a British Telecommunications share from 1 April 2001 to 16 November 2001 was 310p – 600p.

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 (see note 34 to the financial statements), are as follows:

	1 April 2001	Rights issue ^a	Awarded	Vested ^b	Lapsed	Total number of award shares ^d		Range of value of award	
						Demerger ^c	31 March 2002	Minimum £000	Maximum £000
Sir Christopher Bland	–	–	235,697	–	–	75,376	311,073	–	871
B Verwaayen ^e	–	–	781,576	–	–	–	781,576	2,188	2,188
P Hampton	60,189	5,575	153,792	–	–	70,215	289,771	243	811
Dr P Reynolds ^f	237,343	–	–	–	–	–	237,343	20	664
A Green ^f	403,222	–	–	–	–	–	403,222	85	1,019
P Danon ^f	376,645	–	–	–	–	–	376,645	291	1,054
Sir Peter Bonfield	585,895	54,247	386,543	(189,575)	(27,084)	328,335	1,138,361	211	3,187
B Cockburn	99,592	9,219	–	–	–	34,798	143,609	–	402
R P Brace	201,273	18,629	–	(87,589)	(12,721)	38,246	157,838	127	442

^aThe Trustee sold sufficient rights to enable it to take up the remainder.

^bThe awards of shares under the ESP which had been granted in 1996, vested on 1 August 2001. The five year performance cycle for those awards ended on 31 July 2001 and on the basis of BT's TSR position, 85% of the shares under award subject to the performance measure, including reinvested dividends, vested.

^cThe restructuring resulted in the Trustee receiving one BT Group plc share and one mmO2 plc share for every British Telecommunications plc share held. The Trustee sold the surplus mmO2 shares and purchased further BT Group shares. The value of the awards was based on the average combined share price of BT Group plc and mmO2 plc shares over the 20 dealing days following the demerger on 19 November 2001 (see note 34 to the financial statements).

^dExcluding shares purchased by each director and held under the ESP (see page 65).

^eIn accordance with the terms of his service agreement, Ben Verwaayen was granted an award of 387,876 shares, with a value of £1 million under the RSP on 11 February 2002. A personal investment in BT Group shares to the value of £1 million was matched with a further award of Retention Shares with a value of £1 million, resulting in an award of 393,700 shares being granted on 11 February 2002. Both awards will vest on the third anniversary of their date of grant.

^fThe awards of Paul Reynolds, Andy Green and Pierre Danon are as at their date of appointment on 19 November 2001 and the year end.

In accordance with the terms of his service agreement, an award of 482,142 shares with a value of £1,350,000 under the RSP was granted to Ian Livingston on 20 May 2002. This award of shares will vest in three equal tranches on the first three anniversaries of his joining BT. In addition, Ian Livingston purchased 110,444 shares to a value of £300,000 on 20 May 2002 and a matching award of shares was granted to him under the RSP, which will vest on the third anniversary of the date of grant.

Details of awards of shares under the ESP and awards of Incentive Shares which would vest based on BT Group's TSR compared with the other companies in the FTSE 100 for the relevant performance period up to 31 March 2002 are as follows:

	No. of shares under award	Expected vesting date	31 March 2002		31 March 2001	
			TSR position	Percentage of shares vesting	TSR position	Percentage of shares vesting
Sir Christopher Bland	311,073	2004	86	–	–	–
B Verwaayen	–	–	–	–	–	–
P Hampton	202,975	2004	86	–	–	–
Dr P Reynolds	47,019	2003	90	–	–	–
	144,649	2004	86	–	–	–
	18,304	2002	57	32.5	–	–
	11,409	2003	86	–	–	–
	11,388	2004	92	–	–	–
A Green	83,354	2003	90	–	–	–
	174,978	2004	86	–	–	–
	58,000	2002	57	32.5	–	–
	37,378	2003	86	–	–	–
	37,975	2004	92	–	–	–
P Danon	97,581	2003	90	–	–	–
	174,978	2004	86	–	–	–
Sir Peter Bonfield	266,743	2003	90	–	91	–
	510,159	2004	86	–	–	–
	114,493	2002	57	32.5	34	90
	110,456	2003	86	–	38	80
	98,351	2004	92	–	86	–
B Cockburn	76,467	2003	86	–	38	80
	67,142	2004	92	–	86	–
R P Brace	83,110	2002	57	32.5	34	90
	56,073	2003	86	–	38	80

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 the group.

	1 April 2001	Rights Issue ^a	Awarded	Vested	Demerger ^b	31 March 2002	Market value	
							2002 £000	2001 £000
Dr P Reynolds ^c	39,445	–	–	–	–	39,445	110	–
A Green ^c	63,524	–	–	–	–	63,524	178	–
P Danon ^c	21,872	–	–	–	–	21,872	61	–
Sir Peter Bonfield	186,332	17,310	113,370	(27,620)	101,380	390,772	1,094	950
P Hampton	–	–	11,784	–	3,769	15,553	43	–
B Cockburn	33,232	3,087	–	(7,531)	9,207	37,995	106	169
R P Brace	14,650	1,360	–	(7,531)	2,712	11,191	31	75

^aThe Trustee sold sufficient rights to enable it to take up the remainder.

^bThe demerger resulted in the Trustee receiving one BT Group plc and one mmO2 plc share for every British Telecommunications plc share held. The Trustee sold the surplus mmO2 shares and purchased further BT Group shares. The value of the awards was based on the average combined share price of BT Group and mmO2 shares over the 20 dealing days following the demerger (see note 34 to the financial statements).

^cThe deferred bonuses of Paul Reynolds, Andy Green and Pierre Danon are as at their date of appointment on 19 November 2001 and the year end.

At 31 March 2002, Sir Christopher Bland, Ben Verwaayen, Philip Hampton, Pierre Danon, Paul Reynolds and Andy Green each had a non-beneficial interest in 73,069 shares (2001 – 97,578) purchased by BT Employee Shares Trustees Limited for allocation to employees under the BT Employee Share Ownership Scheme, and 24,571,130 shares (2001 – 19,144,802) held in trust by Ilford Trustees (Jersey) Limited for allocation to employees under the employee share schemes. Also, each had a non-beneficial interest in 45,286,908 shares held in trust by Royal Bank of Scotland (Jersey) Trustees Limited for allocation to employees under the BT Employee Sharesave Schemes.

Operating Committee

The aggregate remuneration of members of the Operating Committee (OC) and the former Executive Committee, other than directors, for services in all capacities during the 2002 financial year was as follows:

	2002 £000	2001 £000
Salaries and benefits	3,703	3,699
Annual bonuses	1,551	1,599
Termination and retention payments	1,276	97
Provision for long-term incentive awards	4,959	5,693
Company pension contributions	857	936
Total	12,346	12,024

The Operating Committee replaced the Executive Committee in February 2002.

Paul Reynolds, Andy Green and Pierre Danon, who were members of the Executive Committee, were appointed to the Board on 19 November 2001 and from that date their directors' salaries and their annual bonuses are reflected in the table on page 62.

Options over 5,650 shares under the BT Group Employee Sharesave Scheme were granted to an OC member during the 2002 financial year.

The members of the OC 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 agreement
Sir Christopher Bland	1 May 2001	^a
B Verwaayen	14 January 2002	^b
I Livingston	8 April 2002	^c
P Danon	19 November 2001	^d
A Green	19 November 2001	^d
Dr P Reynolds	19 November 2001	^d

^aSir Christopher Bland entered into a new service agreement on 19 November 2001, terminable on 12 months' notice by either the company or the director.

^bThe agreement is terminable during the first year by the company giving two years' notice and thereafter, by notice of not less than one year; terminable by the director on six months' notice ending after the first two years.

^cIan Livingston entered into an initial service agreement on 8 April 2002 for two years. The contract is terminable on 12 months' notice by the company and six months' notice by the director ending at any time after the initial period.

^dThe initial agreement is for one year and is terminable by the company on 12 months' notice and by the director on six months' notice ending after the initial period.

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
Sir Anthony Greener	1 October 2000	30 September 2003 ^a
L R Hughes	1 January 2000	31 December 2002 ^a
Baroness Jay	14 January 2002	^b
J F Nelson	14 January 2002	^b
C Symon	14 January 2002	^b
M van den Bergh	1 September 2000	31 August 2003 ^a

^aEach director's contract of appointment was with British Telecommunications plc for an initial period of three years. On 19 November 2001 each director entered into a new contract with BT Group plc for the remainder of that period. The contract is terminable after that period by the company or the director on 12 months' notice.

^bEach director's contract is for an initial period of three years and is terminable by the company or the director on three months' notice. The contract is 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.

Sir Anthony Greener

*Deputy Chairman and Chairman of Remuneration
Committee*

21 May 2002

By order of the Board