

All-Employee Share Plans

Case Study



About BT

- BT is one of the world's leading providers of communications solutions serving customers in Europe, the Americas and Asia Pacific.
- Its principal activities include networked IT services, local, national and international telecommunications services, and higher-value broadband and internet products and services
- BT consists principally of four lines of business: BT Global Services, Openreach, BT Retail and BT Wholesale.

BT Global Services

- BT Global Services supplies managed services and solutions to multi-site organisations worldwide - its core target market is 10,000 multi-site organisations including major companies with significant global requirements, together with large organisations in target local markets. It provides them with networked IT services and a complete range of managed solutions.



Openreach

- This new BT business was created within the BT Group following Ofcom's Strategic Review of Telecommunications. It is responsible for managing the UK access network on behalf of the telecommunications industry as a whole. Openreach opened for business on 22 January 2006.
- Openreach provides access network services and products for the UK communications industry to enable it to deliver innovative and competitively priced services to the 60 million people living and working in the UK



BT Retail

- BT Retail is the UK's largest communications service provider, by market share, to the residential and business markets.
- It supplies a wide range of communication products and services, including voice, data, internet and multimedia services, and offers a comprehensive range of managed and packaged communications solutions.
- The portfolio includes traditional telephony products such as calls, analogue/digital lines and private circuits. New wave revenue generation is focused on broadband, mobility and networked IT services.

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BT Wholesale

- BT Wholesale provides network services and solutions within the UK to more than 600 communication companies, fixed and mobile network operators, internet and service providers including BT Retail and BT Global Services. It aims to build complete communications packages, and works with its customers to help them succeed in their businesses.
- BT Wholesale is moving into new markets, with the emphasis changing from the regulated, capital-intensive products in its traditional portfolio to internet connectivity, network facilities management, mobility, equipment and content and applications.

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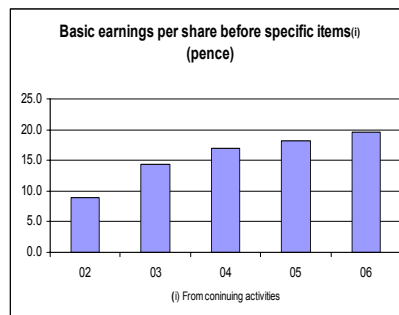
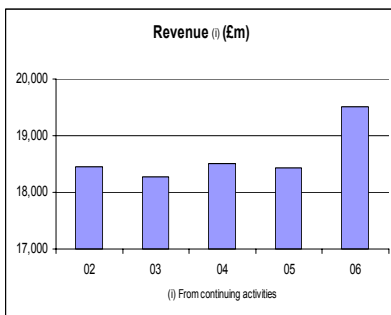
Some numbers

- BT Serves around 20 million customers in 170 countries around the world
- Still around 87% of revenue from UK business
- Market capitalisation of around £23 billion
- Around 110k employees – mainly in UK
- Revenues in 2005/06 were £19,514 million
- Profit before tax and specific items in 2005/06 was £2,177 million
- Around 1.4 million shareholders

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Performance



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Employee Share Plans – UK Environment

- Long history of employee share ownership – dating back to 1984
- Tax benefits for HM Revenue and Customs approved plans such as Sharesave, Share Investment Plan, Share Options
 - Need to follow certain requirements
 - Certain limits apply
- Filings and returns – the Revenue and Financial Services Authority/Stock Exchange
- Share dealing restrictions – disclosure rules (FSA)
- Pre-emption rights - ABI guidelines
- Accounting - IFRS

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Share Plans

- **Executive share plans**
 - Incentive Share Plan (vesting subject to corporate performance (TSR))
 - Deferred Bonus Plan
 - Retention Share Plan
 - Global Share Option Plan
- **All-employee share plans**
 - Allshare (Free shares - Share Investment Plan)
 - Saveshare (Savings-related Share Option Plan)
 - Directshare (Partnership shares – Share Investment Plan)
 - Employee Stock Purchase Plan (monthly savings plan)



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International All-employee Share Plans

allshare

Global population -> 12,000

> 40 countries



Employee stock purchase plan

saveshare

Corporate Nominee

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Allshare – free shares

- Performance-related - direct link to profits
- Up to 2 per cent of pre tax profits
 - BUT subject to the achievement of two corporate performance measures
 - Earnings per share and customer satisfaction
- One per cent for achieving each target
- Customer satisfaction also includes a gate – customer dissatisfaction must be no worse than previous year outturn
- Awards must be held in trust for minimum of three years
- After five years they are free of income and capital gains tax
- Operates internationally – holding period may vary
- Cash used in countries where use of shares is problematic
- Plan operates in more than 40 countries – shares used in 50 per cent of countries which is innovation this year



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allshare - cash example

- If in June 2006 UK allshare participants receive 200 BT shares, in June 2009 an allshare participant who receives cash instead of shares would receive the value of 200 shares multiplied by the value of BT shares at that time.
- Therefore, if in June 2009 BT shares were £3 per share, the cash award would be £600 (before tax), plus the value of the dividends paid on those shares during the three-year period.
- This amount would be paid via salary in local currency.

saveshare



- Savings related share option plan – no risk
- Price at which shares can be purchased is determined at time of application
- Price at a discount to the market price
- Level of discount varies depending on length of savings contract
 - 10% for three year savings contracts
 - 20% for five year savings contracts
 - 20% for three year savings contracts – international plan
- Reintroduced a savings carrier for overseas employees this year – Halifax part of HBoS group who are also savings carrier and administrator for UK plan
- Maximum monthly savings contribution is equivalent to £250

directshare

- Operates in the UK only
- An HM Revenue and Customs approved plan
- Allows employees to spend up to £125 to buy BT shares out of **gross salary** each month
- Depending on an individual's tax rate this gives a discount ranging from over 30 per cent to over 40 per cent
- This approach not available outside the UK
- Shares have to be held in trust for a minimum of three years, and after five years are free of income and capital gains tax
- Legislation allows companies to match employee contributions to buy further shares

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Employee Stock Purchase Plan

- Used exclusively in the United States and Canada
- Monthly deductions from salary
- Shares purchased quarterly
- 15% discount to the price of an ADS at the start of the offer period.
- Revenue approved – favourable tax benefits
- Applications made on-line
- Offer lasts for two years
- Take-up approximately 30%

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Communications

- Plans operated centrally
- Local co-ordinators have a limited role in dealing with questions
- Personalised communications – for ease of processing
- Given the numbers and costs, we make extensive use of online invitation/application/maturity systems
- Saveshare documentation translated into French, Spanish, Italian, German, Hungarian and Dutch
- Online applications in above languages plus French Canadian, Brazilian Portuguese and Cantonese
- Hold webchats
- Online news

On-line communications

show example

International Corporate Nominee

- What happens to shares from allshare and saveshare?
- Holding shares in certificated form is a disincentive to retain shares
- Created a corporate nominee – easy and paperless way of holding shares
- On-line and telephone administration
- The service is linked to share dealing facility
- Hopefully will be an incentive to employees to make a long term commitment
- Dividends used to buy more shares
- Employees account for tax on dividends

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Regulatory changes – accounting for share plans

- IFRS2 may create a huge administrative burden
 - Current approach has been to calculate IFRS2 charge on group wide basis and apportion pro rata

BUT

- Rejected by the auditors in AsiaPac employing entities (already adopted IFRS2) – assumptions for valuation models OK group-wide, but not small populations
- Auditors in AsiaPac require actual figures for grants, lapses, vestings, exercises per participant, per year, tracking mobility

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Take-up rates internationally

- Allshare (free shares) 64%
- Saveshare
 - Spain high 20%
 - Belgium low 5%
 - Average around 8%
- Employee Stock Purchase Plan
 - US around 30%