We believe that strong corporate governance is critical to delivering our strategy and creating long-term value for our shareholders. We also recognise the importance to our wider stakeholders in delivering our strategy and achieving sustainability within our business.

Corporate governance report

Contents

Further information on compliance with the Code can be found as follows:

The UK Corporate Governance Code 2018 (the Code)

In respect of the year ended 31 March 2020, BT Group plc was subject to the Code published in July 2018 (available at **frc.org.uk**). We have complied in full with the principles and provisions set out in the Code throughout the year. To keep this governance report concise, we focus on key governance issues and have included some cross-references to other relevant sections of the Annual Report where more information can be found.

During the year, we have undertaken a comprehensive review of the matters reserved to the Board. The current matters reserved to the Board and each committee's terms of reference can be found on our website at **bt.com/about**

New York Stock Exchange delisting and US Securities and Exchange Commission deregistration

During the year ended 31 March 2020, BT Group plc delisted from the New York Stock Exchange (NYSE) and terminated its American depositary receipts (ADR) programme. As we have not yet deregistered from the US Securities and Exchange Commission (SEC), we are required to produce a Form 20-F, which can be accessed from the SEC's EDGAR database.

For more information visit our website at **bt.com/about**

Chairman's governance letter

The Board continues to believe that strong corporate governance is critical to delivering our strategy. It is responsible for the leadership of the group, ensuring our actions are in keeping with the values that shape our culture and in delivering long-term, sustainable value for all our stakeholders. This Corporate Governance report for the year ended 31 March 2020 includes an insight into how governance supports our business and the decisions we make whilst considering the interests of all our stakeholders.

Purpose, strategy and values
Central to the long-term delivery of our strategy is the group's culture, underpinned by the values and behaviours expected of our colleagues. Therefore, we continually consider how our culture is aligned with our purpose, values and strategic objectives.

Changes to the Board
Board succession planning was a key priority in 2019/20. Through the *Nominations Committee*, we focus on Board succession and composition and ensuring we have the right balance of skills, independence, experience and diversity in line with the needs of the group.

During the year, we welcomed Leena Nair and Ian Cheshire as independent non-executive directors. Leena has brought a valuable understanding of the strategic and practical challenges of driving large-scale transformation. Ian brings a wealth of listed company experience, with a notable background in strategy, international retail and e-commerce. We also announced that Sara Weller will join as a non-executive director before the 2020 annual general meeting (AGM). Sara brings a broad perspective to the Board having a background in retail, fast-moving consumer goods and financial services. As announced on 1 May 2020, Adel Al-Saleh will join the Board with effect from 15 May 2020 as a non-independent, non-executive director and Deutsche Telekom's nominated representative, replacing Tim Höttges.

Jasmine Whitbread stepped down from the Board on 6 December 2019 after almost nine years as a non-executive director. Leena succeeded Jasmine as chair of the *Digital Impact & Sustainability Committee*. Further to Nick Rose deciding to step down from the Board at the conclusion of the 2020 AGM, we have announced that Iain Conn will be appointed as the Senior Independent Director, Ian Cheshire as chair of the *Remuneration Committee* and Matthew Key as chair of the *Audit & Risk Committee*. I would like to thank Jasmine, Tim and Nick for their invaluable support to BT and the Board.

Diversity
Diversity and inclusion continue to be a key focus on the UK governance agenda. BT fully recognises the benefits of a diverse Board and the importance of diversity, in all forms, across the organisation. The *Nominations Committee* considered diversity as part of its non-executive director appointment discussions. BT has a good track record of female representation on the Board. Leena Nair and Isabel Hudson are chairs of two of our committees and Isabel is also our designated non-executive director for workforce engagement. After the 2020 AGM, 33% of our Board will comprise women.

Stakeholders
Strengthening the voice of our colleagues at Board-level has been a focus this year. We established the *Colleague Board* as our formal mechanism for the Board to ensure effective engagement with our colleagues (see pages 32 to 33). As our designated non-executive director for workforce engagement, Isabel Hudson is a member of the *Colleague Board* and she reports back to the Board on key discussions with its members.

We recognise the importance of our wider stakeholders in delivering our strategy and business sustainability. We are conscious about our responsibilities and duties to our stakeholders under section 172 of the Companies Act 2006 and have detailed our stakeholders, their importance to our business and our engagement with them in the Strategic report.

In 2019, alongside the launch of our new corporate brand purpose, Beyond Limits, we launched our Skills for Tomorrow programme which is designed to empower 10m people by giving them the skills they need to flourish in a digital world. The *Digital Impact & Sustainability Committee* monitored the progress of this programme in the lead up to its launch.

The *Remuneration Committee* spent considerable time reviewing the remuneration structure for our senior executives. Accordingly, Nick Rose, chair of the *Remuneration Committee*, engaged extensively with our shareholders in relation to the proposed changes to the Directors' Remuneration Policy (provided in the report on directors' remuneration) which will be put before shareholders for their approval at our 2020 AGM.

The *Audit & Risk Committee* continued to monitor internal control and risk management. Alongside the Board, it undertook detailed reviews of some of our principal risks throughout the year.

The *BT Compliance Committee* is responsible for monitoring whether the governance model for Openreach is working as expected and achieving the outcomes for consumers and industry. It continued to review the operation of the financial planning and strategy development processes and monitored the behaviours and engagement of both the group and Openreach in the context of the Commitments.

This year the Board undertook an internal effectiveness evaluation of the Board and its committees. There was positive feedback on the relationships between directors and between the Board and management, highlighting shared understanding, constructive challenge and high levels of trust. Recent Board changes have resulted in a better-balanced Board with reference to all forms of diversity including gender, skills and experience.

I would like to thank the Board and the executive team for their ongoing support, particularly during the Covid-19 crisis. Details of our upcoming AGM on 16 July 2020 will be included in the Notice of meeting.

Jan du Plessis
Chairman
6 May 2020

Our governance framework

The Board

Responsible for the stewardship of the group, overseeing its conduct and affairs to create long-term sustainable success in order to generate value for shareholders and other stakeholders. The Board has established certain committees to assist it in discharging its responsibilities and delegates day-to-day responsibilities to the chief executive.

Board leadership on pages 70 to 73

Audit & Risk Committee

Oversees, assesses and reviews our financial and narrative reporting, internal controls and risk management, including internal and external audit and pan-BT finance, control and compliance-related transformation programmes.

Audit & Risk Committee chair's report on pages 78 to 81

Nominations Committee

Considers the structure, size and composition of the Board and its committees and advises on succession planning for the Board and the *Executive Committee*. It ensures the Board is diverse, with the appropriate balance of skills, experience, independence and knowledge.

Nominations Committee chair's report on pages 76 and 77

Remuneration Committee

Agrees the remuneration framework for the chairman, executive directors and certain senior executives and monitors remuneration practices and policies for the wider workforce.

Report on directors' remuneration on pages 84 to 109

BT Compliance Committee

As a sub-committee of the *Audit & Risk Committee*, it oversees our adherence to the Commitments we made as part of the 2017 Digital Communications Review with Ofcom.

BT Compliance Committee chair's report on page 82

Digital Impact & Sustainability Committee

Provides oversight and direction to bring our purpose to life through our digital impact and sustainability strategy.

Digital Impact & Sustainability Committee chair's report on page 83

Colleague Board

Discusses and inputs into significant proposals and initiatives impacting our colleagues, as well as other engagement mechanisms. Our designated non-executive director for workforce engagement reports back to the Board on its activities.

Colleague Board on pages 32 and 33

Investigatory Powers Governance Committee

Oversees our role in the use of official investigatory powers.

Chief executive

Responsible for running the business and setting and executing our strategy.

Executive Committee

Provides input and recommendations to assist the chief executive in the day-to-day management of the business and its operations.

BT Investment Board

Provides input and recommendations that support the chief executive's decision making on investment budgets and cases.

Disclosure Committee

Ensures the company meets its disclosure obligations and reviews and approves regulatory and other announcements before publication.

Matters reserved to the Board and its committees' terms of reference can be found on our website at **bt.com/about**

Each Board committee chair formally reports to the Board following their meetings and makes any recommendations to the Board in line with its terms of reference. Papers and minutes for all meetings are circulated to all Board and committee members (as relevant) other than those who may be deemed to have a potential conflict of interest. Deutsche Telekom's nominated representative owes a fiduciary duty to both BT and Deutsche Telekom. The *Conflicted Matters Committee* reviews all papers ahead of sharing these with him to identify potential or actual conflicts of interest.

Board of directors

IP N D

Jan du Plessis
Chairman
Appointed chairman in November 2017 and to the Board in June 2017. Age 66.

Experience
Jan was chairman of Rio Tinto from 2009 to 2018 and chairman of SABMiller from 2015 until 2016. He was also a director and later senior independent director of Marks & Spencer from 2008 until 2015. Before that he served as chairman or non-executive director of a number of public companies. Prior to that, until 2004, Jan was group finance director of Richemont.

Relevant skills and contribution to the Board
Significant experience serving as chairman and as a non-executive director on the boards of FTSE 100 companies across varying sectors. Jan has the knowledge and insight to lead an effective board and an in-depth understanding of UK corporate governance requirements.

External appointments
None.

C E IP

Philip Jansen
Chief executive
Appointed chief executive in February 2019 and to the Board in January 2019. Age 53.

Experience
From April 2013 until joining BT, Philip was CEO of Worldpay. Before that he was CEO and then chairman at Brakes Group between 2010 and 2015. Philip spent the previous six years at Sodexo where he was group chief executive, Europe, South Africa and India. Prior to that he was chief operating officer at MyTravel Group from 2002 to 2004 and managing director of Telewest Communications (now Virgin Media) from 2000 to 2002 after initially starting his career at Procter & Gamble.

Relevant skills and contribution to the Board
Extensive experience of leading and growing large private and publicly-listed UK and international businesses, delivering transformational change and large technology programmes.

External appointments
Senior advisor at Bain Capital and trustee of Wellbeing of Women.

E

Simon Lowth
Chief financial officer
Appointed chief financial officer and to the Board in July 2016. Age 58.

Experience
Simon was CFO of BG Group before the takeover by Royal Dutch Shell in February 2016. Prior to that, he was CFO of AstraZeneca from 2007 to 2013. He was an executive director of ScottishPower from 2003 to 2007 having been appointed as the finance director in 2005. Before 2003, Simon was a director of McKinsey & Company.

Relevant skills and contribution to the Board
A strong background in finance, accounting, risk, corporate strategy and mergers and acquisitions. Simon's experience and implementation of cost transformation and performance improvement programmes provide valuable expertise.

External appointments
None.

A C D N R

Mike Inglis
Independent non-executive director
Appointed to the Board in September 2015. Age 60.

Experience
Mike served as non-executive chairman of Ilika until January 2019 and was on the board of ARM Holdings from 2002 to 2013. His roles at ARM included chief commercial officer, executive vice president and general manager of the processor division and executive vice president of sales and marketing. Prior to joining ARM, Mike worked in management consultancy with AT Kearney and held a number of senior operational and marketing positions at Motorola. Mike was previously a director of Pace and an independent director of Advanced Micro Devices.

Relevant skills and contribution to the Board
Significant experience in the technology industry and expertise in marketing, management and operations.

External appointments
None.

A N R

Matthew Key
Independent non-executive director
Appointed to the Board in October 2018. Age 57.

Experience
Matthew held various positions at Telefónica from 2007 to 2014 including as chairman and CEO of Telefónica Europe and chairman and CEO of Telefónica Digital. From 2002 to 2004 he was the CFO, strategy and regulation director of O2 UK before becoming CEO in 2004. Matthew has also served as finance director at Vodafone UK and chairman of Tesco Mobile. He has previously held positions at companies including Kingfisher, Coca-Cola and Schweppes Beverages and Grand Metropolitan.

Relevant skills and contribution to the Board
Strong strategic skills and a wealth of experience in finance and the telecoms sector.

External appointments
Non-executive director and audit committee chair of Burberry and chairman of Dallaglio Rugbyworks.

A C N

Allison Kirkby
Independent non-executive director
Appointed to the Board in March 2019. Age 52.

Experience
Allison was appointed President & CEO of Telia Company in May 2020. Allison was previously President & Group CEO of TDC Group until October 2019, and President & Group CEO of Tele2 AB from 2015 to 2018, having been Tele2 AB's Group CFO from 2014. She was chair of the audit committee and a non-executive director of Greggs until May 2019. She has also held financial and operational roles within 21st Century Fox, Virgin Media, Procter & Gamble and Guinness.

Relevant skills and contribution to the Board
Valuable and recent experience in the international telecoms sector combined with strong experience in driving performance, improving customer service and delivering shareholder value.

External appointments
President and CEO of Telia Company.

Membership key

- ● Committee chair
- A Audit & Risk Committee
- C BT Compliance Committee
- C Colleague Board
- D Digital Impact & Sustainability Committee
- E Executive Committee
- IP Investigatory Powers Committee
- N Nominations Committee
- R Remuneration Committee

Our directors share collective responsibility for the activities of the Board. There is a clear division of responsibilities between the chairman and the chief executive. The responsibilities of the chairman, chief executive, senior independent director, and other key roles are set out on our website at **bt.com/about**

N R

Sir Ian Cheshire
Independent non-executive director
Appointed to the Board in March 2020. Age 60.

Experience
Ian was previously group chief executive of Kingfisher and senior independent director and remuneration committee chair of Whitbread. Ian held a variety of posts whilst at Kingfisher from 1998 to 2014, including chief executive of B&Q from 2005 to 2008 and group chief executive from 2008 to 2014. He was also previously the chairman of Debenhams and the lead non-executive director for HM Government.

Relevant skills and contribution to the Board
A wealth of listed company experience, with a notable background in strategy, international retail and e-commerce.

External appointments
Chair of Barclays Bank UK and a non-executive director of Barclays and chair of Menhaden, a UK investment trust.

A IP N

Iain Conn
Independent non-executive director
Appointed to the Board in June 2014. Age 57.

Experience
Iain was group chief executive of Centrica for over five years from 2015 to 2020. Prior to that, Iain spent 29 years at BP and was a board director for ten years from 2004 to 2014 including as chief executive Downstream from 2007 to 2014, and a member of the executive committee from 2002-2014. Until May 2014, Iain was a non-executive director of Rolls-Royce for nine years and senior independent director. Iain also served as a member of Council of the Imperial College from 2010 to 2019.

Relevant skills and contribution to the Board
Deep experience in the global energy markets, industrial operations, regulated consumer markets, and in technology and engineering. Broad international experience.

External appointments
Member of the European Round Table for Industry, the CBI President's Committee, and chairman of the advisory board of the Imperial College Business School.

N

Tim Höttges
Non-independent, non-executive director
Appointed to the Board in January 2016. Age 57.

Experience
Tim has been CEO of Deutsche Telekom since January 2014, and with the company since 2000. From 2009 to 2014, he was a member of the board of management responsible for finance and controlling. From 2006 to 2009 he was a member of the board of management responsible for the T-Home unit and in charge of fixed network and broadband business and integrated sales and service in Germany.

Relevant skills and contribution to the Board
Significant experience in international telecoms providing valuable knowledge in product development, cost savings and financial control.

External appointments
Chairman of T-Mobile US and supervisory board member of FC Bayern München AG and Henkel AG & Co. KGaA. Tim will join the supervisory board of Daimler AG subject to shareholder approval at its annual general meeting.

C C D N R

Isabel Hudson
Independent non-executive director
Appointed to the Board in November 2014. Age 60.

Experience
Isabel was previously senior independent director of RSA Insurance, non-executive director of The Pensions Regulator, MGM Advantage, QBE Insurance, Standard Life and an executive director of Prudential Assurance Company in the UK.

Relevant skills and contribution to the Board
A wealth of experience in financial services, in the life, non-life and pensions industries as well as risk, control, governance and international business. Insight and expertise in regulatory, pensions and financial matters.

External appointments
Non-executive chair of National House Building Council (until May 2020). Isabel is also an ambassador for the disability charity, SCOPE, and an advisory council member of University College Lady Margaret Hall, Oxford. Isabel will join Axa S.A. as a non-executive director subject to shareholder approval as its annual general meeting.

D N R

Leena Nair
Independent non-executive director
Appointed to the Board in July 2019. Age 50.

Experience
Since 2016, Leena has been the chief human resources officer at Unilever. She is responsible for Unilever's global people agenda, working across 160 markets to help deliver Unilever's business financial performance as well as its environmental and social impact objectives. Leena joined Unilever in 1992 and has held a wide variety of HR roles throughout her career, including senior vice president for leadership and organisational development and global head of diversity, executive director of Hindustan Unilever and vice president HR South Asia.

Relevant skills and contribution to the Board
A deep understanding of the strategic and practical challenges of driving large-scale cultural transformation.

External appointments
Non-executive director at the UK Department for Business, Energy and Industrial Strategy.

A R N

Nick Rose
Senior independent director and independent non-executive director
Appointed to the Board in January 2011. Age 62.

Experience
Nick was chief financial officer of Diageo prior to his retirement in December 2010, having joined the board in 1999. Nick was appointed as senior independent director of BT in March 2014.

Relevant skills and contribution to the Board
Brings to the board a strong background in finance, risk, control, governance and international business. He also has significant experience in procurement, strategy and IT on a global basis.

External appointments
Chairman of Williams Grand Prix Holdings and director of BAE Systems.

Sara Weller CBE
Independent non-executive director

Sara will join the Board on 16 July 2020, immediately before the 2020 AGM, as an independent non-executive director. She will be a member of the *Audit & Risk*, *Nominations* and *Digital Impact & Sustainability Committees*.

Adel Al-Saleh
Non-independent, non-executive director

Adel Al-Saleh will join the Board on 15 May 2020 as a non-independent, non-executive director replacing Tim Höttges as Deutsche Telekom's nominated representative. Adel will be a member of the *Nominations Committee*.

Rachel Canham
Company secretary & general counsel, governance

Rachel joined BT in 2011 and was appointed company secretary & general counsel, governance in November 2018.

Other Board and committee changes
The following are announced Board and committee changes that will take effect from the conclusion of the 2020 AGM:

- Nick Rose will step down from the Board as a non-executive director and senior independent director
- Iain Conn will become the senior independent director and a member of the *Remuneration Committee*
- Matthew Key will chair the *Audit & Risk Committee*
- Ian Cheshire will chair the *Remuneration Committee* and become a member of the *BT Compliance Committee*
- Mike Inglis will cease being a member of the *Remuneration Committee*.

Board leadership

The Board is ultimately responsible for overseeing the performance of the group. The Board's focus is on strategy, growing shareholder value, oversight and control and corporate governance.

Attendance

We held ten scheduled Board meetings and two ad hoc Board meetings in 2019/20. Board and committee members are provided with papers in a timely manner in advance of each meeting on a secure electronic portal. In addition, the chairman holds private sessions with our independent non-executive directors before Board meetings. Dinners are held for all Board members to have informal discussions on business matters. If directors are unable to attend a meeting, they typically give their views and comments to the chairman in advance.

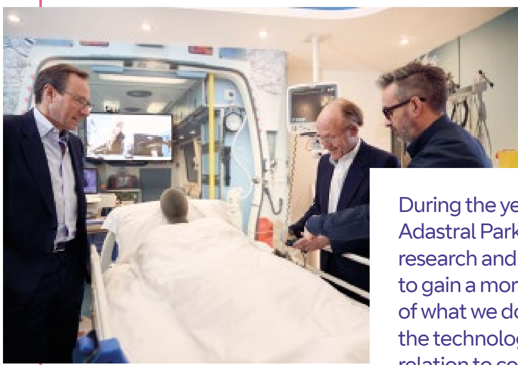
Member	Attended	Eligible to attend
Jan du Plessis (chairman)	10	10
Philip Jansen	10	10
Simon Lowth	10	10
Ian Cheshire[a]	1	1
Iain Conn	10	10
Tim Höttges	8	10
Isabel Hudson	10	10
Mike Inglis	10	10
Matthew Key	10	10
Allison Kirkby	10	10
Leena Nair[b]	6	7
Nick Rose	10	10
Jasmine Whitbread[c]	6	7

[a] Ian was appointed to the Board on 16 March 2020
[b] Leena was appointed to the Board on 10 July 2019
[c] Jasmine stepped down from the Board on 6 December 2019.

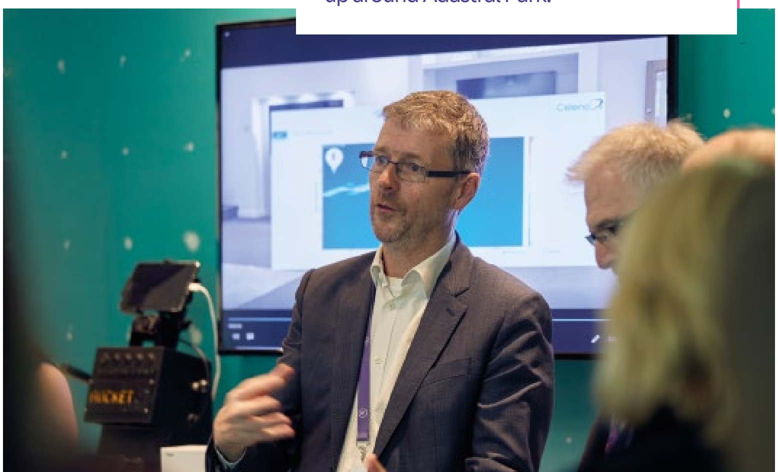
Due to prior business commitments, Tim was unable to attend two Board meetings and Jasmine was unable to attend one. Leena was unable to attend a Board meeting due to a prior business commitment which she had notified us of prior to her appointment to the Board.

Case Study:

The Board's visit to Adastral Park



During the year, the Board visited Adastral Park, Ipswich, our global research and development headquarters, to gain a more in-depth understanding of what we do there. They learned about the technologies we are developing in relation to converged networks, cyber security and artificial intelligence, as well as our work in relation to converged solutions and innovation to best serve our customers. This visit not only facilitated increased knowledge of how research contributes value to our operations and services, but also provided the Board with visibility of talent at different levels in different parts of the business. The Board also gained an insight into the culture across the group and a glimpse of the wider innovation ecosystem that has built up around Adastral Park.



Key responsibilities

The Board is responsible for establishing the group's purpose and values and satisfying itself that these align to our culture and the group's strategic direction, long-term objectives and development. The Board also maintains oversight of the group's operations, performance and governance and ensures compliance with statutory and regulatory obligations. It also determines the group's risk appetite and ensures that we have in place a robust system of internal control and risk management, and is responsible for ensuring that the group has the necessary leadership team in place to efficiently execute its strategy.

The matters reserved to the Board can be found on our website **bt.com/about**

Stakeholders and key strategic decisions

See pages 24 to 29 of the **Strategic report** for more details on our key stakeholders. Examples of some of the decisions the Board and its committees have taken throughout the year and how stakeholder interests and the directors' section 172 duties have been considered in reaching those decisions are also set out in the **Strategic report** on page 34.

Activities in 2019/20

Below are some of the matters that the Board discussed during the year:

Strategy and operations

Chief executive's report	The chief executive provides an update at every Board meeting to give directors a good understanding of operational issues and the competitive and regulatory environment that affects BT and the wider communications industry. He also discusses the progress against our strategic priorities and transformation programmes, as well as performance, investor relations matters, sustainability and stakeholder updates.
Strategy and strategic priorities	The Board discussed the group's strategy with management in detail at two full-day strategy meetings. This included reviewing the ambitions in each of the customer-facing units and Technology, taking into account the long-term future for the business, investment priorities and impacts on different stakeholder groups. Throughout the year, the Board received updates from each customer-facing unit CEO on their strategic priorities, progress on key initiatives and the plans for addressing key issues and material risks to deliver them. As part of our ongoing transformation of the Global unit, the Board was provided with updates on potential divestments, which were discussed and approved as appropriate (see page 34).
Transformation	The Board discussed with management the group's transformation and simplification plans, progress made to date and further ways in which we will continue to drive efficiencies and simplification.
Covid-19	The Board received updates in relation to Covid-19, including the work undertaken to protect our colleagues, support the NHS and other stakeholders and manage the potential impacts for our business.
Corporate rebrand	In advance of the BT brand relaunch, the Board and management discussed our corporate rebrand and the corporate purpose, Beyond Limits, alongside our digital impact and sustainability programme, Skills for Tomorrow. Regular updates on the various underlying initiatives and feedback from different stakeholders were provided.
FTTP	The Board discussed and evaluated the group's investment business case for FTTP build throughout the year, reviewing various scenarios, and balancing the interests and impact for both Openreach, the group and different stakeholder groups. Consequently, the Board supported our increased ambition for our full fibre build to reach 20m premises by the mid-to-late 2020s subject to the required critical enablers.
Building Digital UK (BDUK) submissions	The Board considered and approved BDUK tender submission bids by Openreach, for example the bid strategy and investment in relation to the R100 programme to deliver superfast broadband in Scotland, which was subsequently successful.
Shared rural network	The Board considered and approved our participation in the joint mobile operator initiative that enables greater mobile connectivity in rural areas in the UK.
Wholesale Fixed Telecoms Market Review 2021-26 (WFTMR)	Ofcom's WFTMR consultation was released in January 2020 which provided additional clarity on the regulatory enablers for any investment in fibre. The Board discussed our position in relation to each regulatory enabler and our engagement with Ofcom as part of our response to the consultation.

Activities in 2019/20 continued

Spectrum	The Board considered the bid strategy and overall spend for the upcoming spectrum auction, balancing short-term investment spend for the business with the long-term benefits in relation to delivering on our strategy.
Sports rights	The Board evaluated several scenarios in relation to bidding for exclusive sports rights to UEFA Champions League, UEFA Europa League and UEFA Europa Conference League until 2024, taking into account the overall investment cost and the benefit to the business and consequently approved the bid strategy.
Suppliers	The Board received updates on any notable points in relation to key suppliers from the chief executive. During the year, it was also updated by relevant members of management on the Government's review of high-risk vendors (including Huawei) and planning for potential decisions by the Department for Digital, Culture, Media & Sport (DCMS) including the impact to BT of the DCMS announcement in January 2020.
Customers	The Board discussed with each of the customer-facing units, the current performance, ambitions and areas for improvement, and the priorities for continuously improving our customer experience performance.
BT Halo	Having discussed the proposal, the Board approved the investment in the BT Halo product, a hybrid solution to enable a better service for our customers.

Finance and risk

Financial performance	The chief financial officer provides an update on BT's financial performance and outlook at every meeting. The Board discussed and approved the financial statements and results announcements at year-end, half-year and at each quarter, as well as the group's tax strategy.
Distribution policy	In May 2020, having considered the various stakeholder interests, in particular the long-term interests of our shareholders, the Board concluded the prudent decision was to suspend the final dividend for 2019/20 and all dividends for 2020/21, and to re-base future dividends to a more sustainable level. This decision will create capacity for BT to invest in long-term, value-enhancing opportunities, including our strategic intent for an accelerated FTTP build and our transformation and modernisation programme, coupled with the shorter-term impact of Covid-19. The Board expects to continue with a progressive dividend policy from this re-based level for future years (see page 44).
Group funding	The Board considered and approved the annual funding plan in May 2019, BT Group plc acting as guarantor to the Euro Medium Term Note programme in July 2019, the US 144A programme in November 2019 and the hybrid bond issuance in February 2020 in line with the group's funding strategy.
Risk management	The Board commented on and approved the group risk register, having discussed the principal risks and uncertainties facing the group. Both the Board and the *Audit & Risk Committee* held detailed reviews into several of our principal risks. Further details on our principal risks are set out on pages 52 to 63. On behalf of the Board, the *Audit & Risk Committee* also undertook detailed reviews of BT's risk management and internal control systems and provided regular updates to the Board.
Pensions	In preparation for the next triennial funding valuation of the BT Pension Scheme, the Board was updated on the funding position and changes in the external environment.
Investor perceptions and shareholder relations, consideration of analysts' reports	The Board received regular reports outlining share register movement, relative share price performance, investor relations activities and engagement with shareholders. The Board considered feedback from this and also discussed with the brokers the telco market, performance and our share price relative to the market. As part of changes to our Directors' Remuneration Policy (the Policy), the *Remuneration Committee* chair engaged with a number of our investors (see page 84), taking account of their feedback as part of the new Policy being put to shareholders for approval at the 2020 AGM (see pages 90 to 97).

Colleagues

Culture and talent	The Board discussed the group's culture including reviewing our purpose, values, behaviours and workforce policies and how they align with our culture, aspirations and initiatives, including the consideration of any key indicators to monitor progress. The Board was updated on diversity, our initiatives in this area and current progress made to meet our targets.
Engagement	Having considered various options for the mechanism by which the Board could better engage with our colleagues, it established the *Colleague Board* with the aim of strengthening our understanding of colleagues' views (see pages 32 and 33). Feedback from the *Colleague Board* is shared and discussed with the Board by Isabel Hudson, our designated non-executive director for workforce engagement. The Board also received updates on the various other mechanisms and initiatives that we use across the business to engage with our colleagues (see page 25). This included updates on progress in relation to BT's strategic sites and hub locations in the UK as part of our Better Workplace Programme.
Health, safety and wellbeing	The Board received reports on the health, safety and wellbeing of our colleagues across the business including those in Openreach and discussed the measures being taken and any systems in place to mitigate the risk of incidents.

Governance

Secretary's report	At every Board meeting, the company secretary reports on key corporate governance developments, such as institutional investor guidelines and updates, and any governance recommendations for consideration, approval or information.
NYSE delisting, ADR programme termination and SEC deregistration	The Board considered and approved the proposal and rationale for delisting from the NYSE, termination of the ADR programme and the deregistration from the SEC, including any related actions and communications (see page 34).
Annual Report 2020	The Board reviewed and approved the Annual Report on the recommendation of the *Audit & Risk Committee,* having considered that taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.
AGM	The Board approved the AGM resolutions for recommendation to shareholders including the Directors' Remuneration Policy and updated share plan rules (on recommendation from the *Remuneration Committee*).
Committee reports	The committee chairs reported back to the Board on matters discussed at each of their committee meetings. Details of their key activities can be found in each committee's respective report.
Board, committee and directors' evaluations	During the year, we carried out an internal evaluation of the Board and its committees. The details of this for the Board can be found on page 75 and for each committee in their respective reports. The chairman held individual discussions with each director to make sure they continue to contribute effectively and were committed to their roles. The senior independent director led the evaluation of the chairman's performance, taking into account the views of the other directors.
Matters reserved to the Board and committee terms of reference	The Board carried out a comprehensive review and approved the updated matters reserved to the Board. An annual review of the terms of reference for each Board committee was also undertaken to ensure they continued to be fit for purpose and reflected best practice.

Composition, succession and evaluation

Board induction
When appointed, directors have a comprehensive induction programme to give them a thorough overview and understanding of the business. This is tailored to take into account a director's previous experience, their responsibilities and, for non-executive directors, specific committee responsibilities relevant to their committee memberships. The programme includes meetings with the chairman, chief executive, senior independent director and the company secretary, as well as other Board and *Executive Committee* members and senior management. Directors are encouraged to visit our offices and sites, including contact centres and BT/EE shops, as well as spending a day with an Openreach engineer. Directors also receive key information on our governance framework, recent financial data and the policies supporting our business practices, including our ethics code.

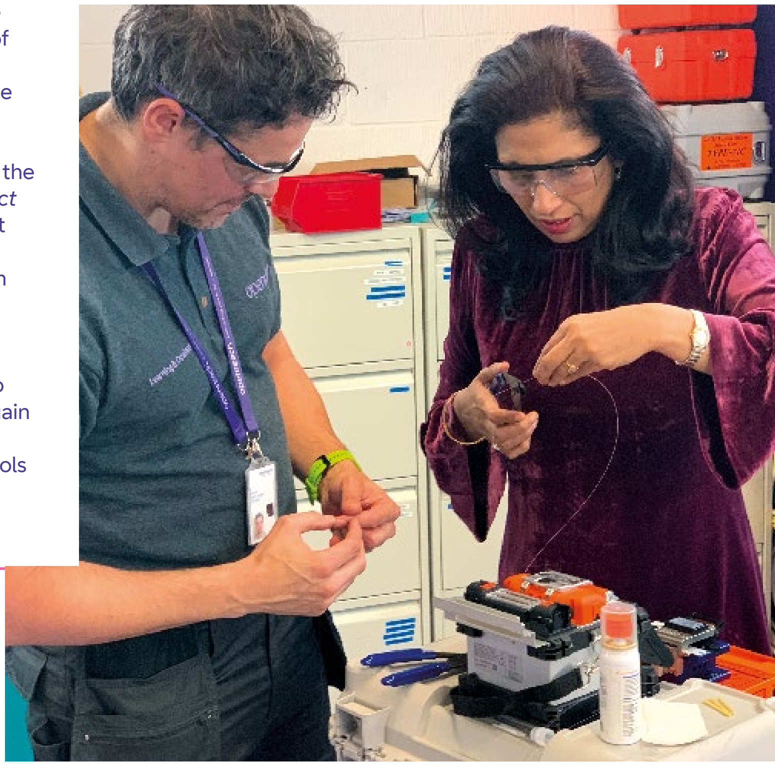
Training and development
The chairman reviews training and development needs with all directors. Non-executive directors regularly meet with management, enhancing their understanding of the business through briefing sessions. We encourage all directors to keep their skills and knowledge up-to-date and ask for any support they need. As part of ongoing development, the company secretary briefs the Board and committees on any significant legal, regulatory and governance developments. During the year, these briefings included updates on the UK Stewardship Code 2020, updated institutional investor guidelines, the Brydon Review and the FRC's Annual Review of the Code. Directors are updated as required on developments in the environment in which the business operates and internal and external advisers are invited to provide updates as necessary.

Each director may obtain independent professional advice at the company's expense as required. Each committee is supported by the company secretary and her team.

We encourage all directors to visit our sites and offices to meet our colleagues and broaden their understanding of the business. In 2020, this included a visit to Adastral Park (see page 70).

Time commitment
By accepting their appointment, directors must confirm they are able to allocate sufficient time to discharge their responsibilities effectively. All directors are expected to attend all meetings of the Board and any committees of which they are members, as well as the AGM, and any Board offsites or away days. Directors are also expected to devote sufficient time to prepare for each meeting and to take part in at least one visit to one of our offices or other sites each year. Before accepting external appointments, directors are required to obtain the prior approval of the Board.

Leena's induction
Leena's induction comprised:
- introductory meetings with members of the *Executive Committee* and other members of senior management
- a series of meetings with key members of the digital impact & sustainability and reward teams, as well as with our remuneration advisers, given Leena became a member of the *Remuneration Committee* and *Digital Impact & Sustainability Committee* on appointment to the Board and thereafter chair of the *Digital Impact & Sustainability Committee* in December
- introductory meetings with Tony Cates, lead audit partner, KPMG
- a visit to Adastral Park to gain an insight into BT's research and development focus and gain a broader insight to our business
- attending one of Openreach's training schools in Peterborough with Clive Selley, CEO Openreach.



Election and re-election of directors

The *Nominations Committee* considers, in respect of each director, their skills and experience, time commitment, tenure and independence as part of the Board's recommendation to shareholders for the election or re-election of directors. The Board believes that each director who is being put forward for election or re-election at the 2020 AGM brings considerable knowledge, wide-ranging skills and experience to the Board, makes an effective and valuable contribution and continues to demonstrate commitment to their role.

Further to the changes to the Board announced on 1 May 2020, the Board recommends to shareholders at the 2020 AGM the election of Adel Al-Saleh, Ian Cheshire, Leena Nair and Sara Weller, and the re-election of all other directors, with the exception of Nick Rose and Tim Höttges.

Details of all directors' contracts or letters of appointment are in the **Report on directors' remuneration** on page 107.

Board evaluation

Internal evaluation 2019/20

During 2019/20 we carried out an internal evaluation of the Board and its committees led by the chairman and the company secretary. Members, attendees and external advisers completed questionnaires, covering topics such as composition, requirements of stakeholders, the monitoring of culture, the quality of support provided to the Board and succession planning. The output of the evaluation was discussed and debated by the Board and each committee. The agreed actions for each committee are set out in the respective committee reports.

There was positive feedback on the relationships between Board members and between the Board and management, highlighting shared understanding, good challenge and high levels of trust and discussion. The Board is considered to be well balanced with reference to all forms of diversity including gender, skills and experience.

Our key areas of focus for 2020/21 are:

Key areas of focus	Agreed actions
Talent management and succession planning for executives	Greater time should be spent on senior executive succession planning during 2020/21. Consider alternate ways in which Board members can meet and engage with key talent.
Review the effectiveness of material past decisions	The Board should consider the most effective way in which it can spend time reviewing the effectiveness of material past decisions and capturing lessons learned.
Board papers and information	Further improve papers through better signposting and ensuring they are clearer in identifying the key issues and the asks of the Board.
Board and committee discussion time	Review the agendas and duration of topics with presenters to allow for increased discussion time as appropriate.

In line with the Code, in 2020/21, the Board and committee evaluation will be externally facilitated.

Internal evaluation 2018/19

The progress against the agreed key actions in relation to our 2018/19 internal evaluation (disclosed in last year's report) are set out below:

Agreed key areas of focus	Progress during 2019/20
Strategy setting and strategic priorities	Biannual Board strategy days held in which the Board and management considered and discussed the market and the future business for BT to set strategic priorities and focus.
Cultural transformation	Our cultural transformation was discussed by the Board and its committees several times during the year. Cultural alignment with brand, values and behaviours is continuously considered by management. The Board's visit to Adastral Park during the year provided an opportunity for the Board to engage with colleagues at different levels within the organisation.
Talent management and succession planning for executives	The Board discussed succession planning during the year and this was also considered in detail by the *Nominations Committee*. The Board and its committees have had increased visibility of colleagues below *Executive Committee* level through presentations during the year.

Nominations Committee
Chair's report

The focus for this committee this year was appointing new executive directors with appropriate skills and experience, with Board diversity continuing to be a priority.

Jan du Plessis
Chair of the Nominations Committee
6 May 2020

Membership and key responsibilities
We are responsible, on behalf of the Board, for keeping under review the succession planning of executive and non-executive directors, together with the composition of the Board and its committees. All non-executive directors are members of the committee. The chief executive attends meetings where appropriate. The company secretary is secretary to the committee and attends all meetings. No committee member or attendee attends when their own performance is discussed.

Attendance

Member	Attended	Eligible to attend
Jan du Plessis (chair)	7	7
Ian Cheshire[a]	1	1
Iain Conn	7	7
Tim Höttges	4	7
Isabel Hudson	7	7
Mike Inglis	7	7
Matthew Key	7	7
Allison Kirkby	7	7
Leena Nair[b]	6	6
Nick Rose	7	7
Jasmine Whitbread[c]	4	4

[a] Ian joined the committee on 16 March 2020
[b] Leena joined the committee on 10 July 2019
[c] Jasmine stepped down from the committee on 6 December 2019.

Tim was unable to attend two committee meetings due to prior business commitments and one due to illness.

The committee's key responsibilities are set out in its terms of reference available on our website **bt.com/about**

Activities in 2019/20
The committee held seven meetings during the year. The committee considered, with subsequent recommendation to the Board for approval as appropriate:

- Board composition and a review of the skills, experience, independence, knowledge and diversity requirements in line with the current and future needs of the business
- potential candidates for appointments to the Board and changes to the membership of committees
- the independence of non-executive directors and the proposals for election or re-election of directors at the 2020 AGM
- the letters of appointment of the independent non-executive directors, following which the Board decided to amend these to be on a rolling basis subject to three months' notice being served by either party, in line with the Code
- changes to the composition of the board of Openreach Limited
- the performance and development areas and the succession plans for members of the *Executive Committee*.

New non-executive director appointments
As stated in our 2019 Annual Report, it was expected that Jasmine Whitbread and Nick Rose would step down from the Board by the end of the 2020 AGM. During 2019/20, we announced three non-executive appointments to the Board: Leena Nair, Ian Cheshire and Sara Weller. Below is a summary of the process we followed in appointing them:

Candidate requirements
The committee identified and discussed the capabilities and experience of potential new non-executive directors, considering the composition of the Board and the experience and skills needed to drive the future success of the business. Diversity of background and opinion was also recognised as important.

Search process
The process was led by the chairman. MWM Consulting, an independent external search agency, who had no other connection to BT, facilitated the process. The chairman considered a list of candidates with MWM Consulting. A shortlist of candidates were invited to interview.

Interviews
The chairman, chief executive and some committee members interviewed the shortlisted candidates.

New non-executive directors appointed
All interviewers provided feedback on the candidates to the chairman. As a committee we discussed the relative merits of each candidate based on the criteria for each appointment. We proposed Leena, Ian and Sara's appointments to the Board which were subsequently approved.

On 1 May 2020, the committee recommended to the Board the approval of Adel Al-Saleh's appointment as a non-independent, non-executive director and Deutsche Telekom's nominated representative to replace Tim Höttges with effect from 15 May 2020. Adel will also be a member of the *Nominations Committee*.

Non-executive directors' tenure
As at 6 May 2020

	No.	%
0-1 years	4	40
2-3 years	1	10
4-6 years	4	40
7-9 years	-	-
9+ years	1	10

Post 2020 AGM

	No.	%
0-1 years	6	60
2-3 years	1	10
4-6 years	3	30
7-9 years	-	-
9+ years	-	-

Diversity and independence
As at 6 May 2020

Chairman*
1

Executive directors
2

Non-independent, non-executive directors
1

Independent non-executive directors
8

Post 2020 AGM

Chairman*
1

Executive directors
2

Non-independent, non-executive directors
1

Independent non-executive directors
8

As at 6 May 2020			Post 2020 AGM		
Male	9	(75%)	Male	8	(67%)
Female	3	(25%)	Female	4	(33%)

* Independent on appointment to role

Independence of directors
The majority of the Board are independent non-executive directors. The chairman was judged to be independent at the time of his appointment and all other non-executive directors are considered to be independent under the terms of the Code, with the exception of Deutsche Telekom's nominated representative. He owes fiduciary duties to both BT and Deutsche Telekom. Our *Conflicted Matters Committee* identifies potential or actual conflicts of interest and helps him comply with his fiduciary duties but the ultimate responsibility rests with the nominated representative.

Given Nick Rose began his nine year tenure as a non-executive director on 1 January 2011, the committee and the Board undertook a thorough review of his independence. The committee considered his personal qualities and circumstances, including any business or relationships that could materially interfere with his ability to exercise objective or independent judgement or his ability to act in the best interests of the group. The committee and the Board concluded that he continues to be independent of management and a valuable director, with experience in the areas of finance, risk, control and governance. Given appointments of new non-executive directors during the last year and a half, and the resignation of Jasmine Whitbread in December 2019, it was felt that Nick offered consistency and experience over this period of transition. Changes at chief executive level also mean that Nick does not have long-standing relationships with senior management, and Nick holds other directorships outside of BT further supporting his independence. As stated in my governance letter, Nick has decided to step down at the conclusion of the July 2020 AGM.

Diversity
Diversity was a key factor in reviewing the Board's composition and recommending appointments. We are keen to have a Board with a diversity of skills, gender, social and ethnic backgrounds, cognitive and personal strengths, with appointments based on merit. We continue to challenge our external search consultants where necessary to ensure that diversity is always considered when drawing up candidate shortlists.

At the date of this report, we have three female Board members out of 12, equivalent to 25% female. At the end of the 2020 AGM, we will have reached our current Board diversity target of having 33% female representation on the Board (four out of 12).

We believe that diversity and inclusion are important throughout the group and at all role levels within the business. During the year, the Board reviewed BT's diversity commitments and progress made in this area. Gender diversity across our senior leadership team has improved this year, with 29% of our *Executive Committee* and their direct reports being female.

Details of our approach to inclusion and diversity are on pages 30 and 31.

Succession planning
During the year, we reviewed *Executive Committee* members' performance and focused on succession planning. The chief executive, with the support of the group HR director, is responsible for developing succession plans for executives and senior management, and these were considered by the committee. 2019/20 has been a year of significant change in the business as we continued to transform BT. The committee and the Board discussed the importance of identifying critical roles within the business to ensure we retain and motivate key talent and have the necessary skills for the future.

Committee evaluation 2019/20
During 2019/20, we carried out an internal evaluation of the committee led by the chairman and the company secretary. Members and regular attendees completed questionnaires and the responses and key findings were discussed by the committee. The committee has agreed these key areas of focus for 2020/21:

Key areas of focus	Agreed actions
Board diversity	Continue to focus on Board diversity, specifically in relation to gender.
Information to the committee	Ensure all committee members are kept updated on the progress of searches ahead of any final recommendation for new non-executive directors being proposed to the committee.

Audit & Risk Committee
Chair's report

> **This year we continued to monitor the quality, reliability and resilience of our key controls and undertook detailed reviews of a selection of principal risks.**

Nick Rose
Chair of the Audit & Risk Committee
6 May 2020

Attendance

Member	Attended	Eligible to attend
Nick Rose (chair)	9	9
Iain Conn	8	9
Mike Inglis[a]	3	3
Matthew Key	9	9
Allison Kirkby	9	9
Jasmine Whitbread[b]	6	7

[a] Mike joined the committee on 1 November 2019
[b] Jasmine stepped down from the committee on 6 December 2019.

Iain and Jasmine were each unable to attend one committee meeting due to prior business commitments.

Other attendees

	Regular attendee	Attends as required
Chief financial officer	•	
Director, group finance	•	
Director of risk, compliance & assurance	•	
External auditors	•	
Group general counsel	•	
External reporting & financial controls director		•
Group risk director		•
Internal audit director		•
Ethics & compliance director		•

The committee's key responsibilities are set out in its terms of reference available on our website **bt.com/about**

This will be my last report as chair of the *Audit & Risk Committee* as I will step down from the Board at the conclusion of the 2020 AGM. Over the last ten years, this committee has dealt with some significant challenges, most notably the accounting irregularities in Italy. Consequently, the number and length of meetings has been substantial. I am indebted to my long-standing members, Iain Conn and Jasmine Whitbread, for their time and counsel. Recently we have strengthened the committee with new additions of Matthew Key, Allison Kirkby and Mike Inglis. Matthew will succeed me as chair at the conclusion of the 2020 AGM. I am confident that I leave the committee well resourced in numbers and capability.

Membership and key responsibilities

The committee acts independently of the executive. Our members are all independent non-executive directors, with a range of skills and the committee as a whole has experience relevant to the sector. Matthew, Allison and I have recent and relevant financial experience, as required by the Code, and we are the designated financial experts for Sarbanes-Oxley Act purposes.

The company secretary is secretary to the committee and attends all meetings. The chairman and chief executive attended most committee meetings during the year.

The committee met nine times during the year, in line with the financial reporting timetable. As chair of the committee, I meet with the regular attendees ahead of meetings to discuss the key areas of focus. After each meeting, I report back to the Board on the committee's activities, the main issues discussed and matters of particular relevance, with the Board receiving copies of the committee's minutes. The external auditors were not present at meetings where their performance and/or remuneration was discussed. During the year, we held several private sessions with BT's internal and external auditors, without management being present.

Activities in 2019/20

Sarbanes-Oxley and internal controls

Management is responsible for establishing and maintaining an adequate system of internal control, while the committee is responsible for overseeing the effectiveness of these controls. Last year, I reported on management's implementation of the group-wide Sarbanes-Oxley control enhancement programme led by our second line of defence financial controls and assurance team with support from Deloitte and Ernst & Young.

This year, the committee has continued to monitor the ongoing implementation of this enhancement programme, including overseeing the key risk areas. During the year, management has made good progress in remediating the areas of material weakness identified in the prior year in relation to IT general controls and risk assessment but we still have more to do.

In 2019/20, for IT general controls, management enhanced the controls supporting the additional applications brought into scope in 2018/19, introduced a process to ensure changes to IT controls receive an appropriate level of approval testing, and made improvements to the strength of passwords in legacy systems and the timely removal of application access for leavers. Within EE, management ensured SAP privileged user access for development activity was no longer granted.

For risk assessment, management have completed the identification and mapping of transactional process risk points to their related controls for the majority of group processes, completed substantial documentation and testing over 'Information Produced by the Entity' and have appropriately addressed the risks of material misstatement associated with the key outsourced service organisations identified last year.

Despite these improvements, remediation and testing of all remediating plans was not complete at 31 March 2020. Following a thorough review with the external auditors and the committee, management has concluded that, although good progress has been made in narrowing the material weaknesses, our internal control over financial reporting remained ineffective as at 31 March 2020, under Sarbanes-Oxley, in relation to IT general controls and risk assessment. Management has detailed remediation plans which are intended to be completed in financial year 2020/21. The committee will continue to monitor management's progress in their remediation activities.

The committee has also overseen the steps taken to conclude that these material weaknesses do not result in any identified material misstatements in the current period financial statements nor any prior year financial statements. These include the introduction of data analytic testing as part of the programme of detailed balance sheet reviews performed by the group financial controls and compliance team. These reviews included our operations outside the UK and our major contracts and did not identify significant issues or areas of concern.

For 2020/21, management has implemented the SAP Governance, Risk and Compliance module to support the end-to-end monitoring of our financial controls.

The committee continues to focus on monitoring and overseeing management on these improvements to governance, compliance and financial safeguards.

Risk management
Each quarter, all customer-facing units certify the adequacy and effectiveness of their risk management processes and the operation of their Sarbanes-Oxley controls. Our risk management processes, which have been in place throughout the period under review, identify and monitor the risks facing the group. The *Executive Committee*, the Board and this committee regularly review the risks we consider to be material.

During the year, in reviewing the management of our risks, the committee undertook detailed reviews of some of our principal risks (with others being discussed by the Board). These sessions focused on the committee holding open and honest discussions with the risk owners to understand current and anticipated risk developments and how management is managing them. The committee used these discussions to assess the effectiveness of our control and mitigation activities and any areas for improvement. I subsequently reported the outcome of each of these risk sessions to the Board.

Further information on risk management can be found in the **How we manage risk** section on pages 52 to 63.

During the year, the committee also reviewed and inputted into the proposed enhancements to the risk management framework, including the definition of a new pan-BT risk landscape. This will support the way risk management is structured and rolled out across the organisation.

Key matters considered by the Audit & Risk Committee

April 2019 (two meetings)
- External audit and non-audit fees
- Committee and external auditors' effectiveness
- Pensions and tax
- Sarbanes-Oxley update
- Full year results and Annual Report 2019
- Goodwill
- Viability and going concern statements
- Internal control requirements under the Code
- One BT Integrity & Compliance programme
- Internal and external auditors' year-end reports
- Internal audit plan and internal audit charter
- Ethics & compliance and Speak Up cases.

June 2019
- NYSE delisting, ADR programme termination and SEC deregistration
- Regulatory financial statements 2018/19
- Ethics & compliance, including Speak Up cases
- M&A financial commitments and potential liabilities register.

July 2019
- Year-end review of external auditors
- Openreach board audit, risk and compliance committee's annual update
- First quarter trading update
- Internal audit report
- Regulatory financial statements 2018/19
- Sarbanes-Oxley update
- Audit quality review
- External auditors' non-audit fees
- Consumer commercial policies
- M&A financial commitments and potential liabilities register
- Major contentious matters report.

September 2019
- Risk landscape and principal risks
- Consideration of management of significant financial controls
- Finance transformation
- Procurement supply chain risk
- 2019/20 external audit plan and strategy
- Supplier risk and assurance KPIs.

October 2019
- External auditors' non-audit fees
- External auditors' engagement letter
- Sarbanes-Oxley update
- 2019/20 half year results
- Internal and external auditors' reports
- Going concern
- Ethernet backhaul direct service level guarantee payment
- One BT Integrity & Compliance programme
- Technology risk compliance and security programme
- Corporate income tax accounting.

December 2019
- Privacy and data protection risk
- *BT Compliance Committee* chair report
- Sarbanes-Oxley update
- Ethics & compliance, regional governance committees update and Speak Up cases
- International audit coverage and trend analysis.

January 2020
- Third quarter trading update
- Sarbanes-Oxley update
- External and internal audit reports
- Update on the Brydon Review
- Non-audit fees policy
- External auditor's fees and non-audit fees
- Major contentious matters report.

March 2020
- Sarbanes-Oxley update
- External auditor's report
- Draft Annual Report 2020 and the Form 20-F 2020
- Year-end accounting policies
- Reporting developments and pension matters
- Group internal audit plan
- Service interruption risk
- Ethics & compliance report risk and Speak Up report
- Terms of reference
- Corporate income tax accounting.

April 2020
- External auditors' fees and non-audit fees, effectiveness and re-appointment
- Sarbanes-Oxley update
- Full year results and draft Annual Report 2020 and the Form 20-F 2020
- Viability and going concern statements
- Internal and external auditors' year-end reports
- Group internal control requirements under the Code
- Group internal audit charter
- Major contentious matters report
- Duty to Report – payment practices.

Audit & Risk Committee chair's report continued

The Board is ultimately responsible for the group's system of risk management and internal control. See **US Regulation** on page 112 for details on our internal controls assessment for the purposes of the Sarbanes-Oxley Act.

One BT Integrity & Compliance programme
As I reported last year, the risk, compliance and assurance (RCA) function launched a programme called One BT Integrity & Compliance. The aim of this programme is to design, build and operate a stronger, simpler and clearer risk, controls and assurance framework. This is supported by the right culture and capabilities to provide the confidence to take on risk smartly and safely and to deliver a more valuable and resilient BT for all of our stakeholders.

The One BT Integrity & Compliance programme delivered improvements throughout the year including:

- Enhancements to the quarterly customer-facing and corporate units' audit & risk committees (ARCs), making them more streamlined and action focused. The ARCs highlight significant risk, compliance and assurance issues, and the actions required to fix them, including those requiring escalation to the chief executive or this committee
- An effective RCA operating model with a new group RCA leadership team supported by both specialists in a central team, and a deployed team across the customer-facing and corporate units
- The appointment in the year of new senior leaders such as our risk director, ethics and compliance director, and internal audit director; along with enhanced management in each of these teams
- Articulation of a new simple, clear and robust risk management framework.
- Development and use of enhanced risk deep dive templates to provide consistency to our reviews of principal risks.

The focus next year will be to continue to implement the risk management framework, and a revised policy landscape, embedding the output from this work into the day-to-day management and organisational capabilities and culture of BT. The committee will continue to monitor progress against these deliverables.

Finance transformation programme
The committee discussed delivery and implementation of the end-to-end finance transformation programme which has the objective of modernising our key reporting and transactional processes, systems and controls. The committee received updates on progress and provided challenge in order to monitor and support the success of the programme. Management, through a combination of external recruitment and internal training of colleagues, has sufficient resource to implement the new finance process design. A new group-wide finance transformation director has been appointed to lead the implementation and each customer-facing and corporate unit has a senior transformation lead. Progress in the year includes the definition of our pan-BT standard information model, standard definitions of our key transactional processes, go live of our travel and expense, data and new controls systems, as well as front end sourcing.

Financial reporting
The committee considered and assessed:

- the full year and half year results, and quarterly trading updates for recommendation to the Board
- the quality and appropriateness of accounting policies and practices, as well as critical accounting estimates and key judgements
- whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy. This assessment formed the basis of the advice given to the Board.

Significant issues considered in relation to the financial statements

Covid-19

The committee considered the judgements made in evaluating the impact of Covid-19 on the financial statements, including the impact on expected credit losses on trade receivables and contracts assets, contract loss provisions and programme rights assets and commitments.

Group accounting policies, critical accounting estimates and judgements

The committee considered the accounting policies and disclosures in the consolidated financial statements that relate to critical accounting estimates and judgements, the key judgements and assumptions in relation to provisions, including restructuring, regulatory risks and litigation, the implementation of IFRS 16 Leases, and the impact of Covid-19 on the financial statements.

Going concern

The committee considered management's forecasts of group cash flows and net debt, as well as our liquidity requirements and borrowing facilities, including downside scenarios reflecting the full financial impact of our highly severe Covid-19 scenario with our political risk from a disorderly Brexit, alongside supply chain risk from a complete ban on certain high-risk vendors. Following this review and a discussion of the sensitivities, we confirmed that the going concern basis of accounting continues to be an appropriate basis of preparation for the financial statements. Further detail on the basis of our going concern assessment is set out on page 110.

Viability statement

The committee assessed process and assessment of the group's prospects, the time horizon and how this aligned with the group's long-term forecasts, taking into account the company's current position and principal risks. The committee also considered the group risks included in management's stress testing model, including downside scenarios reflecting the full financial impact of our highly severe Covid-19 scenario with our political risk from a disorderly Brexit, alongside supply chain risk from a complete ban on certain high-risk vendors. The committee was satisfied that the viability statement could be provided and endorsed the continued selection of a three-year time horizon as a basis for the statement and the approach to its development. Further detail on the assessment of viability and the viability statement are set out on page 64.

Regulatory reporting

The committee supported the continued changes across people, processes and systems that were put in place to ensure that we met our 2019/20 regulatory financial reporting obligations.

Pensions

The committee considered the assumptions underlying the valuation of the pension liabilities in the financial statements, as summarised in note 20 to the financial statements, the sensitivities around the assumptions and the impact of the assumptions on the balance sheet, income statement and related disclosures. This included updates to the valuation of certain pension assets to reflect the impact of Covid-19.

Goodwill impairment

The committee considered and was satisfied with the key assumptions, including operating cash flow forecasts, resulting headroom and the sensitivity analysis performed by management and agreed that no goodwill impairment charges were required this year. The committee was satisfied that Covid-19 did not have a material impact on the goodwill impairment judgements.

Major contracts

The performance of major contracts in Enterprise and Global were considered, including assessments of the recoverability of dedicated contract assets, assessments of the future performance of the contracts and any requirement for loss provisions.

Asset verification and asset lives

The committee looked at the results of management's annual asset life review, asset verification exercise and review of fully depreciated assets and the committee was satisfied that the judgements taken and the methodology applied were appropriate.

Divestments

The committee reviewed the judgements made in relation to the group's divestments, including on whether the held for sale criteria had been satisfied and how goodwill should be allocated to divested or held for sale entities.

Other matters

Specific items were reviewed quarterly, and we considered whether they were appropriately categorised. We also considered management's view of the quality of earnings and of the effective tax rate. At the half year and full year, we considered a detailed assessment of provisions and at each quarter, the half year and the full year, and the committee was satisfied with the analysis provided in relation to the results.

External audit

Last year, I reported that KPMG had been appointed as our external auditors at the conclusion of the 2018 AGM. Tony Cates is the lead audit partner for KPMG and began his tenure when we appointed KPMG. The company confirms that it complied with the provisions of the Competition and Markets Authority's Order for the financial year under review. The committee reviewed with the auditors the scope of work and the risk informing this, external audit findings and their letter of engagement. The committee approved KPMG's audit plan and management's letter of representation. The committee also considered the proposed external audit fees for the year ended 31 March 2020, as well as the recurring audit fee for the regulatory financial statements, the interim review fee and the one-off audit fee relating to the implementation of IFRS 16, and subsequently approved these fees. Further information can be found in the **Independent auditors' report** on pages 118 to 123.

Auditors' independence, objectivity and effectiveness

The committee discussed the auditors' independence and areas that could give rise to a conflict of interest, and looked at safeguards that they have in place to prevent compromising their independence and objectivity. We have a policy in place detailing non-audit services that can be provided by the external auditors, which has been updated in line with the latest ethical standards. The external auditors are not permitted to perform any work which they may later be required to audit or which might affect their objectivity and independence, or create a conflict of interest. Internal procedures describe the approval process for work performed by the external auditors. This applied to KPMG throughout the year. The committee monitored compliance with the policies and procedures and considered business relationships with the external auditors, and the level and appropriateness of non-audit services and fees. Further details of the non-audit services that are prohibited and allowed under the policy can be found on our website. Details of non-audit services carried out by the external auditors are described in note 8 to **the consolidated financial statements**.

Audit-related assurance services, including the audit of the regulatory financial statements, are considered a low threat to auditor independence. The proportion of other non-audit services to total services is therefore considered the most suitable measure of the non-audit services provided. These represented 2% of the total fees (2018/19: 6%).

The committee also reviewed the quality of the audit and the performance of the external auditors throughout the year. The committee concluded that the external auditors continue to be independent and recommended to the Board that KPMG be put to our shareholders for re-appointment at the 2020 AGM.

Internal audit

The committee:

- reviewed and approved the annual internal audit plan at the start of the year and received regular updates on audit activities, progress against the plan, details of unsatisfactory audits and action plans to address these
- reviewed the performance of the function twice during the year. We commissioned an external effectiveness review of internal audit in 2018/19. This was conducted, in accordance with our five-year cycle of such reviews, by the Chartered Institute of Internal Auditors
- reviewed overdue recommendations and ensured these are tracked through to completion and subject to close monitoring by management.

Governance and compliance

We received and considered reports from management on BT's ethics and compliance priorities, including Speak Up, our confidential hotline. In particular, the committee discussed BT's management of allegations of misconduct. The committee ensures that arrangements are in place for the proportionate and independent investigation of these and other matters, including privacy and data governance and anti-corruption and bribery.

Committee evaluation 2019/20

During 2019/20, we carried out an internal evaluation of the committee led by the chairman and the company secretary. Members, attendees and KPMG, completed questionnaires and the committee discussed the responses and key findings. The committee agreed the following key actions for 2020/2021:

Key areas of focus	Agreed actions
Internal control environment	Increase focus and scrutiny of internal controls, including IT general controls and information used in controls. Further time to be spent on the IT and technology landscape to understand what changes are required and to monitor and challenge progress.
Major transformation projects	Closely monitor major finance, control and compliance transformation projects including the One BT Integrity & Compliance programme and the progress of finance transformation.
Detailed risk reviews	Continue with and enhance detailed reviews into pan-BT key risks and other critical areas.

BT Compliance Committee
Chair's report

"The year has seen significant bedding down of the governance arrangements between BT and Openreach which can now be regarded as 'business as usual'.

Isabel Hudson
Chair of the BT Compliance Committee
6 May 2020

Membership and key responsibilities
This committee is a sub-committee of the *Audit & Risk Committee*. The committee comprises independent non-executive directors only. The company secretary is secretary to the committee and attends all meetings. The chairman, group director regulatory affairs, group general counsel and the directors of the Commitments Assurance Office (CAO) and Openreach's commitments monitoring office also attend all meetings.

We are responsible for monitoring whether the governance model for Openreach is working as expected and achieving appropriate outcomes for consumers and industry. Central to this is ensuring that Openreach is able to act with appropriate independence while BT is properly able to fulfil its parent company duties.

Attendance

Member	Attended	Eligible to attend
Isabel Hudson (chair)	4	4
Mike Inglis	4	4
Allison Kirkby[a]	2	2
Jasmine Whitbread[b]	3	3

[a] Allison joined the committee on 1 November 2019
[b] Jasmine stepped down from the committee on 6 December 2019.

The committee's key responsibilities are set out in its terms of reference available on our website **bt.com/about**

The committee reviews BT's compliance with the letter and spirit of the Commitments (the Commitments) made as part of Ofcom's 2017 Digital Communications Review (DCR). We also review the behaviours and culture of colleagues and the progress being made in the areas of greatest importance to industry and other stakeholders. We are supported in our work by a dedicated CAO.

The Board receives copies of the committee's minutes and I report on the main issues discussed at each committee meeting. We are also accountable to Ofcom, who receive copies of our minutes and the annual review we publish each year (available on our website). Further details on how we engage with Ofcom can be found in the **Strategic report** on page 29.

Activities in 2019/20
The committee met four times this year. We have continued to focus on the spirit of the Commitments, and not just the letter, and on conducting detailed reviews into key decisions so we can see how the Commitments are working in practice. We have taken a risk-based approach to our monitoring, with our main focus being on the operation of the processes that may affect the balance of Openreach's independence and BT's parent company oversight. We discussed:

- the CAO's detailed reviews of the financial planning and strategy development processes and were pleased to observe considerable maturing of the operation of these
- BT's agreement of a new commercial processes guidance note defining which pricing and portfolio decisions Openreach can take itself and which it needs to refer to BT
- the cultures and behaviours that support the delivery of the DCR objectives and seeing these become increasingly embedded as the standard way of working, by hearing from senior management in risk, compliance and assurance, strategy & transformation, group finance and the customer-facing units
- broadband universal service and duct and pole access, two new areas which are important to consumers and industry, to ensure they are established and progressing in line with DCR expectations. We have also increased our engagement with external stakeholders to understand their perspectives of progress to date
- how Openreach and BT share commercial information. We have supported management's efforts to improve both the way this information is reported and the assurance of the quality of reporting. We now have significantly greater clarity here
- CAO compliance "quick checks" and potential breaches and non-conformances with policy notified to the committee via the CAO and decided each case accordingly (and where appropriate discussed remedial actions). The number and nature of breaches and non-conformances remains at a low level.

Committee evaluation 2019/20
During 2019/20 we carried out an internal evaluation of the committee led by the chairman and the company secretary. Members and regular attendees completed questionnaires, and the committee discussed the responses and key findings. The responses were positive, with a consensus that the committee is effective in discharging its duties. The committee agreed these key areas of focus for 2020/21:

Key areas of focus	Agreed actions
Engagement with communication providers	Build on committee engagement with key communication providers (internal and external), alternative networks and industry stakeholders.
Reporting	Review whether further improvements can be made to reporting in order to make papers more focused and concise, focusing on the key issues and their impact.

Digital Impact & Sustainability Committee

Chair's report

"Being appointed chair is an exciting opportunity to continue to elevate the great progress BT has already made on its bold ambitions.

Leena Nair
Chair of the Digital Impact & Sustainability Committee
6 May 2020

Membership and key responsibilities

The committee currently comprises three independent non-executive directors and the chairman. The group HR director, director of corporate affairs and director of digital impact & sustainability attend the meetings. The company secretary is secretary to the committee and attends all meetings. In April 2019, as part of a review of the entire board and committee structure, the committee was renamed the *Digital Impact & Sustainability Committee* (previously the Committee for Sustainable and Responsible Business) and its composition and remit were refreshed.

The committee is responsible, on behalf of the Board, for agreeing the digital impact and sustainability strategy for the group. We monitor progress on our long-term digital impact and sustainability goals, including those relating to digital skills, human and digital rights, climate change, the environment and social issues, such as fundraising and volunteering.

Attendance

Member	Attended	Eligible to attend
Leena Nair (chair)[a]	3	3
Jan du Plessis	4	4
Isabel Hudson[b]	4	4
Mike Inglis[c]	4	4
Jasmine Whitbread[d]	3	3

[a] Leena joined the committee on 10 July 2019 and became committee chair on 6 December 2019
[b] Isabel joined the committee on 3 April 2019
[c] Mike joined the committee on 3 April 2019
[d] Jasmine stepped down from the committee and as committee chair on 6 December 2019.

This is my first report since taking over as chair in December 2019. I see enormous potential to build on BT's strong track record through integrating sustainability even further into core business processes, products and services and in deepening engagement with customers, colleagues and our communities to create a more sustainable future, not just for BT, but for society as a whole.

Activities in 2019/20

The committee met four times during the year and discussed:

Digital impact and sustainability
- The progress in the lead up to the launch of Skills for Tomorrow, our digital skills programme. Since launch, the committee has monitored the programme's reach and impact externally, as well as the focus on the internal reskilling of our people
- Our young people strategy, including Barefoot, our partnership with Computing at School, and our Work Ready programme and their impacts
- The broader digital impact and sustainability strategy, including Openreach's contribution in areas such as climate and digital skills.

Climate
- The group's climate strategy and our public decarbonisation commitment for 2030. To give the committee a better understanding of the external environment and assess BT's areas of focus going forward, an external expert briefing on climate took place.

Human and digital rights
- Our human and digital rights programme including our work to combat modern slavery and responsible use of artificial intelligence. As part of enhancing the committee's knowledge, we also had an external expert briefing on human and digital rights, as it relates to our business.

Accessibility
- Consumer's accessibility, inclusion and vulnerability programme and the ongoing work in this area.

Further information on our digital impact and sustainability work can be found on pages 36 to 39.

Committee evaluation 2019/20

During 2019/20 we carried out an internal evaluation led by the chairman and the company secretary. Members and regular attendees completed questionnaires, and the committee discussed the responses and key findings. The respondents felt that the committee had improved significantly in the last couple of years through having a clearer focus in terms of responsibilities, with meetings involving open and effective discussions supplemented by good quality information. The committee agreed these key areas of focus for 2020/21:

Key areas of focus	Agreed actions
Skills for Tomorrow	Further monitor the progress and impact of the Skills for Tomorrow programme.
Further align committee work with BT's broader corporate strategy	Increase focus on the link between the work of the committee and BT's commercial growth and wider strategies.
Climate change	Further progress and enhance the monitoring of climate-related work at each committee meeting.

The committee's key responsibilities are set out in its terms of reference available on our website **bt.com/about**

Report on directors' remuneration

Committee chair's letter

"This year our focus has been on engaging with shareholders on a broad range of remuneration issues including a new remuneration policy.

Attendance

Member	Attended	Eligible to attend
Nick Rose (chair)	9	9
Ian Cheshire[a]	1	1
Isabel Hudson	9	9
Mike Inglis	9	9
Matthew Key[b]	4	4
Leena Nair[c]	5	5

[a] Ian joined the committee on 16 March 2020
[b] Matthew joined the committee on 3 October 2019
[c] Leena joined the committee on 10 July 2019.

Contents

Membership and key responsibilities

- Determines the salary and benefits for the executive directors, members of the *Executive Committee* and the company secretary, and monitors remuneration practices and policies for the wider workforce
- Operation of the annual bonus scheme for senior executives, including setting performance targets and objectives for the year ahead
- Determines awards under the annual bonus scheme for senior executives
- Governance of the company's long-term incentive plans
- Reviews and approves the Annual Remuneration Report for inclusion in the Annual Report
- Reviews and approves the Policy including seeking shareholder approval, on a binding basis, at least every three years
- Ensures that all remuneration decisions are made within the parameters of the approved Policy and align with our reward philosophy and our values.

In addition to the committee members, the chairman, chief executive, group HR director and director of reward are typically invited to attend meetings, except in instances where their own remuneration is discussed or other circumstances where their attendance would not be appropriate. Deloitte LLP, as the remuneration adviser to the committee, also attends all meetings.

The company secretary is secretary to the committee and attends all meetings.

I will step down from the Board at the conclusion of the July 2020 AGM following more than nine years' service. During my tenure, BT has had its ups and downs like any other organisation, but one thing that has always been consistent is the vital role that BT plays in our society.

As the world deals with the human and economic impact of Covid-19, BT is doing all it can to keep its customers and businesses connected across the mobile, broadband and fixed line networks. It's at times like this that BT steps up and delivers value for the country beyond what we report as profit or that is reflected in our share price. Despite the challenges we have faced this year, the team has worked incredibly hard to deliver progress in many financial and strategic areas. Looking forward, I am optimistic about BT's future as it works collaboratively with the Government, the regulator, and the wider industry to deliver the full fibre broadband infrastructure that the UK needs, on the assumption we obtain the required critical enablers.

This is a longer letter than I would normally write but I think it is important to explain the changes we are proposing and the rationale for these changes in the current environment. Before getting into the body of the letter, I would like to register three other important points.

First, during the year we welcomed two new members to the committee, Matthew Key and Leena Nair, and we were further strengthened by the addition of Sir Ian Cheshire who joined us in March. It has been a busy year for the committee, and I am grateful to my colleagues for their time commitment, challenge and counsel.

Second, I am also very grateful to shareholders for their engagement on a broad range of remuneration issues including of course our new Policy.

Third, in the current environment, I feel that the use of discretion and judgement will be ever more important. To this end, the committee used its discretion this year to reduce the annual bonus and long-term incentive awards to executive directors. We also decided to freeze executive director salaries and to defer this year's and next year's full annual bonus into shares for a further three years. These are difficult judgements to make but the committee felt it appropriate given BT's share price performance and the Board's decision to suspend and re-base future dividends. That said, while the Board recognises that dividends are important to many shareholders, it believes the dividend decision will create capacity for BT to invest in long-term value-enhancing opportunities as well as give us confidence to manage the business through the

Covid-19 crisis without compromising our credit rating. For example, our FTTP investment should realise pre-tax nominal returns of between 10% to 12%.

At this year's AGM, we will be asking shareholders to vote on two remuneration resolutions:

- Our new Policy, which outlines the remuneration framework that will apply to our executive directors, non-executive directors and the chairman of the Board over the next three years; and
- Our Annual Report on Remuneration, which summarises the outcomes for 2019/20 and explains how we intend to apply the new Policy from 2020/21.

New Policy

During the year the committee conducted a comprehensive review of BT's current Policy. The review is timely as Philip Jansen has completed his first year as chief executive, and this is a great opportunity to reinforce his vision for BT with a new Policy.

BT plays an important role in society – as an employer, a taxpayer, as well as connecting and protecting people and businesses in the UK and overseas. This was evidenced when all the main political parties in the last UK general election highlighted that broadband was a key area of focus for the country. Furthermore, the Government announced that they (and the UK telecoms industry) would need to make significant investments to ensure gigabit-capable broadband extends to the hardest to reach places in the UK. To ensure BT continues to play its part in realising this ambition, the committee believes our new Policy should help foster BT as a purposeful company that benefits all stakeholders, while also ensuring executive reward aligns with shareholders' long-term interests. Therefore, the new Policy is designed to:

- Be simpler and more transparent
- Reward performance against a balanced scorecard of financial and non-financial stakeholder metrics
- Encourage long-term share ownership
- Reflect that we operate in a tightly regulated environment, ensuring a narrower but more predictable range of reward and performance outcomes that align with our business model
- Recognise that BT is faced with several near-term substantial investment decisions and that it may take some time to realise the full benefits for BT and its shareholders
- Comply with corporate governance best practice.

Shareholder consultation

During the year, we consulted extensively with our largest shareholders and their representative bodies. I would like to thank those that engaged with us for their helpful feedback. This helped shape the committee's thinking and the development of the new Policy.

Policy proposals and implementation in 2020/21

We are proposing several changes under our new Policy. The most significant change is to replace our current long-term Incentive Share Plan (ISP) with a new long-term Restricted Share Plan (RSP). Under the new RSP, we will grant a smaller award of shares every year that vest over a longer period without any performance targets but with simple underpins.

a) Long-term incentives

Customers want fast, secure, seamless and reliable connectivity to enable their digital lives and businesses. Therefore, at the heart of our business strategy, is the need to deliver the best converged network in the UK through our rollout of Fibre-To-The-Premises (FTTP) and 5G. The technology and infrastructure build that this requires are complex and will take many years to deliver. We must also navigate multiple and sometimes conflicting requirements from different stakeholder groups (e.g. the Government, the regulator, customers, other communication providers, and shareholders). To ensure we support the right management behaviours to do the right things in a considerate way for all stakeholders we believe we need a new long-term incentive plan. We recognise that restricted share plans are still a relatively new type of long-term incentive that are emerging in the UK, but we believe restricted share plans are the right approach for BT at this particular time for the following reasons:

- Conventional three-year financial or total shareholder return (TSR) targets may not support the right management behaviours to do the right thing for all stakeholders given the longer-term nature of our FTTP investment plans
- Setting even longer-term performance targets (beyond three years) would be particularly difficult in today's Covid-19 world
- Restricted share awards are lower than our current Incentive Share Plan awards, which recognises growing sentiment in society to see a reduction in executive pay
- The potential payouts from restricted shares are less extreme and less variable than conventional long-term incentives. This is more appropriate given that BT operates in a tightly regulated environment with a more limited potential range of performance outcomes than in many other companies
- Our restricted share awards will have a longer phased vesting with additional holding periods. This aligns with our longer-term business model and investment cycle, particularly true now as we intend to enter a period of sustained strategic investment to support the Government's plans for the UK
- We intend to make restricted shares available for three layers of management below executive directors to ensure consistency and alignment
- Restricted shares are simpler and more transparent.

In determining the appropriate level of award, we modelled the potential payouts under different performance and share price scenarios, with the aim of providing a similar level of on-target compensation as the current Policy but significantly reducing the maximum compensation. As a result, we are proposing restricted share awards for the chief executive that are 50% of the face value of his current ISP awards. We are also taking the opportunity to harmonise award levels for the chief financial officer, such that both executive directors will be eligible for a normal award of 200% of salary.

Subject to shareholder approval of the new Policy, we expect to make the first RSP awards in August 2020. When considering grant levels each year, the committee will take account of share price performance over the preceding year. Noting the share price performance during the year prior to the Covid-19 crisis and the dividend decision, the first RSP award for executive directors will not exceed 175% of salary though the committee will make a final decision on the award level closer to the grant date in August 2020, taking into consideration several factors including the share price performance between now and then. Details of the awards granted will be disclosed at the point of grant. In addition to this, the committee will specifically look at the outcomes of the first RSP award to assess whether any "windfall gains" have been realised as a result of any Covid-19 "bounce back".

Report on directors' remuneration Committee chair's letter continued

Awards will vest over three to five years, subject to underpins and over-arching committee discretion. All vested shares cannot be sold (other than to meet tax obligations) until year five. The underpins will apply over the first three years of each award. For the awards scheduled to be granted in August 2020, the underpins will be:

- The average adjusted Group Return on Capital Employed (ROCE) over the three-year period is equal to or exceeds the Weighted Average Cost of Capital (WACC) over the same period. This is a meaningful metric for the business as economic value is created when we earn a return above our cost of capital. Setting the threshold at WACC means that management are not discouraged from making important investments in the short-term (such as FTTP and 5G networks) with the aim to create sustainable value for shareholders and the country over the longer term
- There should be no environmental, social or governance issues occurring which result in significant reputational damage to BT including but not limited to workplace fatalities, regulatory fines or sanctions, or significant environmental incidents.

Should either of the underpins not be met, the committee would consider whether a discretionary reduction in the number of shares vesting was required. In addition, the committee will always have over-arching discretion to adjust the vesting outcome if considered appropriate.

b) Annual bonus

We are making some changes to how the annual bonus operates:

- Harmonising the annual bonus opportunity for both executive directors by decreasing the chief executive's maximum bonus from 240% of salary to 200% of salary and increasing the chief financial officer's maximum bonus from 180% of salary to 200% of salary
- Increasing the proportion of annual bonus deferred into shares from 33% to 50% of any bonus paid. This will strengthen the link between short-term performance and sustainable long-term value creation. In addition, in recognition of the current economic environment and the dividend decision, the executive directors have agreed to defer their full bonus for the 2019/20 financial year into shares for a further three years. The committee also welcomed and agreed the chief executive and chief financial officer's proposal to defer their full annual bonus for 2020/21 into shares for a further three-years, to the extent that any annual bonus is payable. This means that the executive directors will not take any cash bonuses for two consecutive years
- Changing the annual bonus measures for 2020/21 as follows:
  - Increasing the weighting on financial performance from 60% to 70% of the bonus, which will be split equally between adjusted EBITDA (35%) and normalised free cash flow (35%). We have increased the weighting on financial performance in the annual bonus to balance the move towards long-term restricted shares
  - Adjusted EBITDA is felt to be the best profitability measure for capturing our transformation to become a simpler and more agile company without penalising management for making the investment required to achieve this. Adjusted EBITDA also aligns with the profit measure used in the annual bonus plans for employees further down the organisation
  - Normalised free cash flow is an important measure that we have used for several years, representing the cash available to cover specific items, pension deficit repair payments and shareholder distributions in a company, after accounting for all operational expenses and investments in capital
  - Linking 30% of the bonus to three equally weighted non-financial measures consistent with our strategic priorities and broader stakeholder responsibilities:

    Customer experience: differentiated customer experience remains at the heart of everything we do. We will be simplifying our current approach by moving to a single metric based on absolute improvements in our Group Net Promotor Score

    Converged networks: as we roll out the latest technologies and work towards creating a single converged network, we will measure success in terms of the total number of customers connected to FTTP and the number of customers connected to 5G

    Digital impact and sustainability: we recognise the importance of the contribution that BT can make to society. The metrics will be focused on progress towards our public ambition of reducing carbon emissions intensity by 87% by 2030, and progress towards our ambition to reach 10m people in the UK with help to improve their digital skills by 2025.

c) Pension

In line with corporate governance best practice, we will reduce the pension allowances for executive directors to align with the pensions provided to most of the UK workforce. The chief executive's pension allowance will be reduced from 15% of salary to 10% of salary in 2020/21, while the chief financial officer's pension allowance will reduce from 30% of salary to 20% of salary in 2020/21, 15% of salary in 2021/22 and 10% of salary in 2022/23 (effective from 1 April at the start of each financial year).

d) Shareholding requirement

To complement the move to restricted shares, and emphasise the focus on long-term share ownership, the shareholding requirement for both executive directors will be increased to 500% of salary. Executive directors must achieve this guideline within five years of the approval of the new Policy or, in the case of any new executive directors appointed, within five years of their date of appointment. We believe this to be at the upper end of FTSE market practice and that it further strengthens the alignment between executives and shareholders.

Reflecting the provisions of the Code, we are extending this requirement for a period of two years post-cessation of employment. Executive directors will be required to retain shares to the value of 500% of salary, or the shares held at the date of leaving if lower, for a period of two years following their departure.

Both the chief executive and the chief financial officer have invested significantly in BT shares during their year and have therefore been aligned with the shareholder experience.

Remuneration outcomes for 2019/20

Overall, BT has delivered significant progress in many financial and strategic areas despite challenging market headwinds and continuing regulatory complexity.

- Revenue was just outside our guidance, and reflected the impact of regulation, declines in legacy products and divestments, partly offset by growth in new products and services and higher rental bases of fibre-enabled products and Ethernet. It was also partly due to a strategic decision to withdraw from a relatively sizeable customer contract, which had a c. £55m impact on revenue. We did not adjust the targets to reflect this decision and therefore no bonus was earned on this measure
- EBITDA was in line with guidance despite lower revenue, as operating costs came in lower year-on-year mainly driven by savings from our ongoing transformation programmes, partially offset by increased business rates, investment in customer experience and increased salary costs in Openreach to support FTTP rollout and better service. Regulatory pricing reductions had an impact of c. £347m and cost inflation (including the effect of cumulo rate increases) had an impact of c. £217m. A decline in fixed voice was partly offset by IP voice with an aggregate impact of c. £137m. Earnings per share (EPS) performance was close to around our stretch goal, principally due to lower than expected interest payments
- Normalised free cash flow was within guidance despite year-on-year increased cash capex to support faster FTTP rollout, lower EBITDA, the deposit for UEFA club football rights, partially offset by one-off cash flows. We did not adjust the targets to reflect any of these impacts
- We achieved c. £1.6bn of annualised benefits a year early from our transformation programme. We have also announced c. £2bn of planned gross cost savings over the next five years
- We performed strongly on network build - FTTP footprint doubled in the year to 2.6m premises and we continue to aim for an average cost per premises passed of £300-£400; and EE was the first to launch 5G in the UK and at the end of 2019/20 was live in 78 cities and large towns.
- Customer complaints to Ofcom were reduced by 41% for BT consumer broadband on a year-on-year basis. We also exited the 2019/20 financial year strongly on our customer Net Promoter Score, which was up 5.5 points in Q4. EE has retained the 'best mobile network' position for the sixth consecutive year in the 2019 RootMetrics survey
- We responded quickly and effectively to the Covid-19 crisis, protecting our people and implementing operational contingency plans, and with a firm focus on supporting the national response to the crisis. The work we are doing for customers and the country has been recognised extensively by the Government and Ofcom, including the brilliant work of our teams to support the NHS and to keep the network running for millions of people that suddenly found themselves needing to work from home during the lockdown.

As a result of our performance, the formulaic outturn under the business performance measures was 103.8% of target. However, given the overall performance of BT including our share price performance during the year and the dividend decision, the committee applied its discretion to reduce the formulaic outcome under the business measures to 85% of target. This resulted in an annual bonus of £1.32m (or 50% of maximum) for the chief executive and £900,176 (or 68% of maximum) for the chief financial officer. The committee welcomed and agreed the chief executive and chief financial officer's proposal to defer their full annual bonus into shares for a further three years.

The chief executive and chief financial officer will not receive a salary increase in 2020 in line with the management population (non-managers will receive a salary increase, which will be 1.5% in the UK).

The ISP award granted in 2017 will lapse in full in May 2020 as we did not meet the performance targets over the last three years.

Following the announcement that all awards had vested in full upon completion of the Worldpay acquisition by FIS, Philip Jansen's buyout award vested on 20 March 2020. Philip voluntarily agreed to hold these shares for a further year.

Looking ahead to 2020

Given the significant changes that are being proposed this year, the focus of the committee during the 2020/21 financial year will be to ensure that the new Policy is successfully embedded into the business and operates as intended. The new Group scorecard for 2020/21 and the RSP will be used for all managers in BT (except in Openreach) that are eligible to participate in an annual bonus and long-term incentive plan. Due to commitments to the regulator and to maintain Openreach's independence, Openreach managers will use a similar scorecard and RSP structure but linked to Openreach performance and payments will be made in cash rather than BT shares. As a committee we seek to make decisions which effectively align remuneration outcomes with performance, balancing all relevant factors. Looking forward, we are confident that the changes to our new Policy will allow us to strengthen this alignment by ensuring that our colleagues are focused on continuing to deliver the transformation needed to make BT a stronger and more purposeful company that benefits all our stakeholders.

As outlined above, our new Policy positions us well against the new provisions of the UK Corporate Governance Code (Code) 2018. We will of course continue to assess how shareholders' views evolve in various areas and monitor any developments in the remuneration landscape more generally. During 2020/21, we will continue to broaden our view of wider workforce pay and conditions and the amount and quality of the information which we see.

Finally, I am delighted to say that Sir Ian Cheshire will succeed me as the chair of the committee, and I am confident that he will oversee a successful implementation of our new Policy.

I hope the committee has your support for our new Policy and our Report on directors' remuneration at the forthcoming AGM.

Nick Rose
Chair of the Remuneration Committee
6 May 2020

Focus on remuneration

Our remuneration principles are to maintain a competitive remuneration package that promotes the long-term success of the business, avoids excessive or inappropriate risk taking and aligns management's interests with those of shareholders. Below is how remuneration is aligned with the principles of the Code.

Clarity
- Our remuneration framework is structured to support the financial and strategic objectives of the company, aligning the interests of our executive directors with those of our shareholders
- We are committed to transparent communication with all our stakeholders, including our shareholders
- From 2020/21, performance for senior management and all other employees will be measured against a single consistent scorecard.

Predictability
- The introduction of the RSP reflects that we operate in a tightly-regulated environment, ensuring a narrower but more predictable range of reward and performance outcomes to align with our business model.

Simplicity
- We operate a simple, but effective remuneration framework, which is applied on a consistent basis for all employees
- The annual bonus rewards performance against key performance indicators, while the RSP provides long-term sustainable alignment with our shareholders
- There is clear line of sight for management and shareholders.

Proportionality
- There is clear alignment between the performance of the company, the business strategy, and the reward paid to executive directors
- Target total compensation levels are set competitively compared to other companies of similar size and complexity, to ensure we can attract and retain the executives needed to deliver the business strategy. However, the maximum total compensation levels are set lower than typical market practice to reflect the narrower and more predictable range of performance outcomes for BT
- Formulaic incentive outcomes are reviewed by the committee and may be adjusted having consideration to overall group performance and wider workforce remuneration policies and practices.

Risk
- Our incentives are structured to align with the company's risk management framework
- Three-year deferral under the annual bonus and no release of RSP awards until five years from the date of award create long-term alignment, as do our in- and post-employment shareholding requirements
- The annual bonus, deferred bonus and RSP also incorporate malus and clawback provisions, and overarching committee discretion to adjust formulaic outcomes.

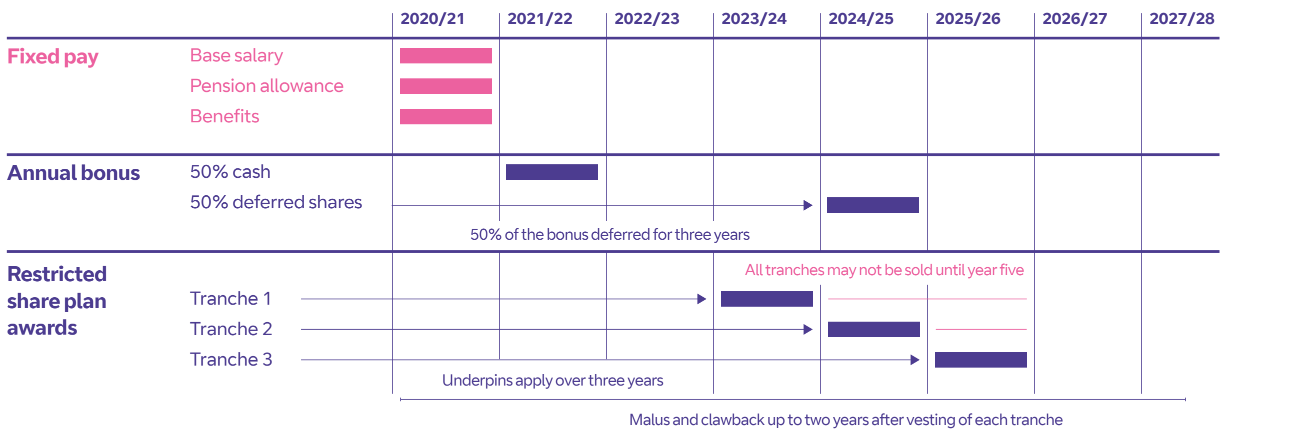
Alignment to culture
- When considering performance, the committee takes account of BT's values
- The committee receives regular updates on pay conditions across the business, and colleagues may provide feedback to the Board directly via the *Colleague Board*
- All-employee share plans help encourage our colleagues to become shareholders in the business.

Look out for these icons in the Report on directors' remuneration to distinguish the different types of pay.

F **Fixed pay**
Base salary
Pension allowance
Benefits

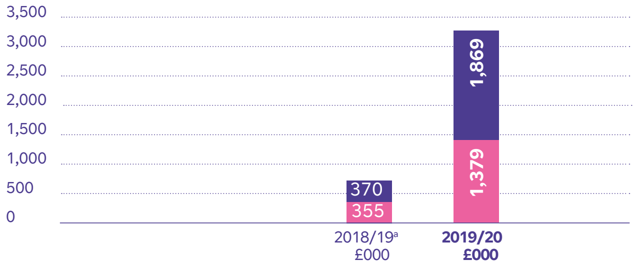
V **Variable**
Annual bonus
Restricted share awards

Illustration of new Policy



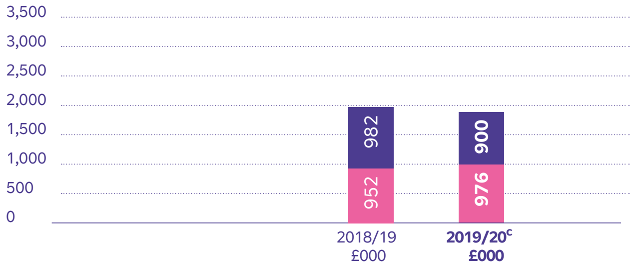
Remuneration earned in 2019/20

Philip Jansen
Chief executive
£000



	2018/19[a] £000	**2019/20 £000**
F Base Salary	275	**1,100**
Pension	41	**165**
Benefits	39	**114**
V Annual bonus (shares)	123	**1,320**
Annual bonus (cash)	247	**0**
RSP (shares)[b]	n/a	**549**

Simon Lowth
Chief financial officer
£000



	2018/19 £000	**2019/20[c] £000**
F Base Salary	715	**732**
Pension	214	**220**
Benefits	23	**24**
V Annual bonus (shares)	327	**900**
Annual bonus (cash)	655	**0**
ISP (shares)	0	**0**

[a] The figure is pro-rated to reflect Philip's service in the year
[b] The buyout award granted to Philip on appointment to compensate him for his loss in shares forfeited from Worldpay. Philip's first ISP award was made in February 2019
[c] The group returned below threshold performance against all of the performance measures for the 2017 ISP. No payment was made.

Performance outcomes in 2019/20

Annual bonus
- Bonus was subject to five measures of business and personal performance
- The EPS result was close to our stretch target, while cash flow and customer experience were between threshold and target
- Revenue performance was below the threshold level
- This resulted in a formulaic outcome of 103.8% of target for the business objectives
- Both executive directors displayed strong leadership and delivered successfully on their strategic objectives for the year
- However, in light of the overall financial performance of the business, including our share price, the committee made a discretionary adjustment and reduced the outcome under the business objectives to 85% of target
- The executive directors have agreed to defer all their bonus for 2019/20 into shares for a further three years.

Incentive Share Plan
- Awards subject to three performance measures
- Performance was below threshold, so awards will lapse in full and no payment will be made.

Annual bonus 2019/20 Measure		Payout (% of max)
Adjusted EPS		97%
Normalised free cash flow		38%
Revenue (including transit)		0%
Customer experience		39%
Strategic objectives	Chief executive	80%
	Chief financial officer	93%

2017 ISP Measure	Payout (% of max)
Total shareholder return	0%
Normalised free cash flow	0%
Underlying revenue growth (excluding transit)	0%

Implementation of the Policy in 2020/21

	F Fixed pay	V Annual bonus	V Restricted Share Plan
Philip Jansen (Chief executive)	Salary – £1,100,000 Benefits Pension – 10% of salary	Max. opportunity – 200% of salary Target opportunity – 120% of salary	2020 award – will not exceed 175% of salary
Simon Lowth (Chief financial officer)	Salary – £735,438 Benefits Pension – 20% of salary	Max. opportunity – 200% of salary Target opportunity – 120% of salary	2020 award – will not exceed 175% of salary
Performance measures	n/a	Adjusted EBITDA (35%) Normalised free cash flow (35%) Customer experience (10%) Converged networks (10%) Digital impact & sustainability (10%)	Awards subject to two underpins over the initial three-year vesting period: • ROCE in excess of WACC; and • No environmental, social or governance issues resulting in material reputational damage.
Framework	n/a	• 100% of any bonus payment in 2020/21 will be deferred into shares for three years • Malus and clawback provisions apply • Full committee discretion available	• Awards vest in three tranches over three to five years; no shares released before year five • Malus and clawback provisions apply • Full committee discretion available

Remuneration Policy

This section of the report sets out our directors' remuneration policy (Policy), which will be put forward for shareholder approval at the 2020 AGM on 16 July 2020. Subject to approval, this Policy will become effective on that date.

The key changes to executive director remuneration between this Policy and the previous Policy approved by shareholders at the 2017 AGM are as follows:

- Replacement of the performance-linked Incentive Share Plan (ISP) with the Restricted Share Plan (RSP), under which awards of restricted shares will be granted
- Reduction in the maximum bonus opportunity from 240% to 200% of salary
- Increase in the minimum bonus deferral amount from one third to 50%
- Reduction in pension allowances for new appointments to align with the majority workforce level of contribution (currently 10% of salary in the UK). We have also reduced pension rates for existing executive directors
- Increase in the executive director shareholding requirement to 500% of salary, to further strengthen the alignment between the executive directors and shareholders
- Extension of the shareholding requirement for a period of two years post-cessation of employment, to align with the requirements of the Code.

Further details on the proposed changes are described in the committee chair's letter on pages 84 to 87. Details on how the Policy will be implemented in the coming financial year are provided on page 104.

Executive directors

F

Base salary

Purpose – a core element of remuneration, used to attract and retain executive directors of the calibre required to develop and deliver our business strategy

Operation

Salaries are reviewed annually, although an out-of-cycle review may be conducted if the committee determines it appropriate. A review may not necessarily lead to an increase in salary.

Salaries are paid monthly in cash.

The committee takes into account a number of factors when setting salaries, including (but not limited to):

- size and scope of the individual's responsibilities
- the individual's skills, experience and performance
- typical salary levels for comparable roles within appropriate pay comparators; and
- pay and conditions for our wider employee population.

Maximum opportunity

Whilst there is no maximum salary level, any increase will typically be broadly in line with our wider employee population.

Higher increases may be made under certain circumstances, such as:

- increase in the scope and/or responsibility of the individual's role
- development of the individual within their role; and
- where an executive director has been appointed to the Board at a lower than typical level of salary, for example to reflect a lower level of experience, larger increases may be awarded to move them closer to the market rate as their experience develops.

Performance measures

None

F

Benefits

Purpose – to support health and wellbeing and provide employees with a market-competitive level of benefits

Operation

Executive directors receive benefits which typically include (but are not limited to) car benefits (which may include any of a company car, cash allowance in lieu, fuel allowance, and driver), personal telecommunication facilities and home security, medical and dental cover for the directors and their immediate family, life cover, professional subscriptions, personal tax advice and financial counselling up to a maximum of £5,000 (excluding VAT) a year.

Where executive directors are required to relocate, the committee may offer reasonable and limited relocation benefits, and additional expatriate benefits, if considered appropriate.

Expenses incurred in the performance of an executive director's duties for the company may be reimbursed (including any relevant taxes due thereon) or paid directly by the company, as appropriate.

The company purchases directors' and officers' liability insurance to cover the directors, and has in place a directors' and officers' indemnity. The insurance operates to protect the directors in circumstances where, by law, BT cannot provide the indemnity.

Further details of the directors' and officers' liability insurance and indemnity are set out on page 111.

Maximum opportunity

While no maximum level of benefits is prescribed, they are generally set at an appropriate market-competitive level determined by the committee, taking into account a number of factors including:

- the jurisdiction in which the employee is based
- the level of benefits provided for other employees within the group; and
- market practice for comparable roles within appropriate pay comparators in that jurisdiction.

The committee keeps the benefit policy and benefit levels under regular review.

Performance measures

None

F **Pension** Purpose – to attract and retain executive directors of the right calibre by providing market competitive post-retirement income.	**Operation** Executive directors currently receive a cash allowance in lieu of pension. The committee may determine that alternative pension provisions will operate for new appointments to the Board. When determining pension arrangements for new appointments, the committee will give regard to: • the cost of the arrangements • pension arrangements received elsewhere in the group; and • relevant market practice. **Maximum opportunity** For newly-appointed executive directors, the maximum cash allowance (or equivalent contribution to an executive director's pension) may not exceed the equivalent level of pension contribution offered to the majority of the workforce in their local jurisdiction (currently 10% of salary in the UK). Existing executive directors were eligible for higher level of pension allowance under the terms of the previous Policy. The chief executive's allowance has been reduced to 10% of salary from 2020/21, while the chief financial officer's allowance has been reduced from 30% to 20% of salary for 2020/21, and will be further reduced to 15% of salary for 2021/22 and to 10% of salary for 2022/23. **Performance measures** None
V **Annual bonus** Purpose – to incentivise and reward delivery of our business plan on an annual basis	**Operation** Executive directors are eligible for an annual bonus. Awards are based on performance in the relevant financial year, and are not pensionable. Up to half of any bonus earned will be paid in cash, with the remainder granted in the form of deferred shares to further strengthen the alignment of management's interests with the long-term interests of shareholders. Deferred share awards will vest, subject to continued employment, after three years. The committee has full discretion to adjust outcomes under the annual bonus plan up or down where: • the formulaic outcome does not reflect the underlying financial or non-financial performance of the company • the payout level is not appropriate in the context of circumstances that were unexpected or unforeseen at the start of the year; and/or • there exists any other reason why an adjustment to the level of bonus payout is appropriate. Both cash and deferred elements are subject to the company's malus and clawback provisions, which are described in more detail on page 97. **Maximum opportunity** The maximum annual bonus opportunity for the executive directors is 200% of base salary. 25% of the maximum under each element is payable for threshold performance. **Performance measures** The committee sets annual bonus performance measures and targets each year, taking into account key strategic priorities and the approved budget for the year. Measures used typically include, but are not limited to: • financial performance measures – these are chosen carefully to ensure alignment between reward and underlying financial performance. As an example, such measures may include free cash flow and EBITDA; and • non-financial performance measures – these reflect key company and strategic goals. For example, such measures may include customer, network and sustainability goals. Financial measures will typically account for at least 50% of the total annual bonus. The committee ensures that targets set are appropriately stretching in the context of the corporate plan, as well as other internal and external factors, and that there is an appropriate balance between incentivising executive directors to meet targets, while ensuring that they do not drive unacceptable levels of risk or inappropriate behaviours.

Remuneration Policy continued

Executive directors continued

V

Restricted Share Plan (RSP)

Purpose – to provide a simple, long-term element of reward which creates alignment with our shareholders.

Operation

Executive directors are eligible to participate in the RSP, which forms the long-term variable element of executive remuneration.

Awards are discretionary and normally vest, subject to continued employment, in three equal tranches after three, four and five years. The net number of shares vesting (i.e. after tax and other statutory deductions) under the first two tranches are subject to a further holding period until year five.

The committee has full discretion to adjust the number of shares vesting up or down where:

- the vesting outcome does not reflect the underlying financial or non-financial performance of the company
- the vesting level is not appropriate in the context of circumstances that were unexpected or unforeseen at the start of the year; and/or
- there exists any other reason why an adjustment to the level of vesting of the award is appropriate.

Vested and unvested RSP awards are subject to the company's malus and clawback provisions, which are described in more detail on page 97.

Maximum opportunity

Under normal circumstances, awards granted to executive directors in respect of any financial year may be no higher than 200% of salary.

Under exceptional circumstances, for example on recruitment, a higher limit of 250% of salary applies.

Performance measures

RSP awards are subject to one or more underpins over a period of three financial years commencing with the year in which the awards were granted.

These underpins are designed with the protection of the company in mind, to ensure an acceptable threshold level of performance is achieved and that vesting is warranted. The underpins applying to each award will be determined by the committee each year, but may include for example a return on capital threshold, or assurance that there has been no environmental, social or governance issue resulting in material reputational damage.

If the underpins are not met, the committee may consider a reduction to the final vesting level of the RSP awards (including to nil). Even if met, the committee retains discretion to reduce the vesting level in exceptional circumstances, should it not be an accurate reflection of the underlying performance of the business over the relevant period.

All-employee share plans

Purpose – to encourage wider employee share ownership.

Operation

Executive directors may participate in any all-employee share plans operated by the company on the same basis as other eligible employees.

Maximum opportunity

All participants may participate up to the limits operated by the company at the time set in line with statutory limits.

Performance measures

None.

Shareholding requirement

Purpose – to ensure that executive directors build and hold a stake in the company, providing alignment with shareholders' interests.

Operation

Executive directors are required to build up and maintain a shareholding equivalent to 500% of their annual salary. This should be achieved within five years of adoption of this Policy, or appointment to the Board (whichever is later).

Shares counted towards satisfaction of the requirement include all beneficially-owned shares, vested share awards subject to a holding period, and all incentive awards that are subject to continued service only (including Deferred Bonus Plan (DBP), and RSP awards subject to underpins), counted on a net-of-tax basis.

Until such time that the requirement has been satisfied, executive directors will not be permitted to sell any vesting incentive awards (other than to satisfy tax or other statutory liabilities on vesting, or at the discretion of the committee in exceptional circumstances).

The shareholding requirement will continue to apply for a period of two years post-cessation of employment, to the same value as in employment (or the total number of shares held immediately prior to cessation of employment, if lower).

Maximum opportunity

N/A

Performance measures

None

Chairman and non-executive directors

Chairman fees	Operation
Chairman Core element of remuneration, paid for fulfilling the relevant role.	The chairman of the Board receives a single all-encompassing fee for his role, inclusive of any additional responsibility fees, paid monthly in cash. The chairman is also eligible for certain benefits in line with those which may be offered to executive directors, other than any pension benefits, and may receive a lump sum death in service benefit of £1m. Expenses incurred in the performance of non-executive duties for the company may be reimbursed (including any relevant taxes due thereon) or paid directly by the company, as appropriate. The chairman is eligible to participate in any all-employee share plans operated by the company on the same basis as other eligible employees.
	Opportunity
	The fees are set at a level which is considered appropriate to attract and retain a chairman of the necessary calibre. Fee levels are normally set by reference to the level of fees paid to Board chairs of similarly-sized, UK-listed companies, taking into account the size, responsibility and time commitment required of the role. Fee may be reviewed (but not necessarily increased) on an annual basis. Current fee levels can be found in the **Annual Report on Remuneration** on page 105. The company's Articles of Association provide the maximum aggregate fee payable. The maximum is based on non-executive director fees benchmarked as at 1 April 1999 with increases linked to the Retail Price Index.

Other non-executive director fees	Operation
Other non-executive directors Core element of remuneration, paid for fulfilling the relevant role.	Non-executive directors receive a basic fee, paid monthly in cash in respect of their Board duties. Further fees may be paid for additional responsibilities, including chairmanship or membership of Board committees, or for the role of senior independent director or for holding the role of designated non-executive director for workforce engagement. Additional fees of up to £6,000 may also be payable to non-executive directors undertaking regular intercontinental travel to attend Board and committee meetings. Non-executive directors are not eligible for annual bonus, share incentives, pensions or other benefits. Reasonable expenses incurred in the performance of non-executive duties for the company may be reimbursed (including any relevant taxes due thereon) or paid directly by the company, as appropriate.
	Opportunity
	Fees are set at a level which is considered appropriate to attract and retain non-executive directors of the necessary calibre. Fee levels are normally set by reference to the level of fees paid to non-executive directors serving on boards of similarly-sized, UK-listed companies, taking into account the size, responsibility and time commitment required of the role. Fees may be reviewed (but not necessarily increased) on an annual basis. Current fee levels can be found in the **Annual Report on Remuneration** on page 105. The company's Articles of Association provide the maximum aggregate fee payable. The maximum is based on non-executive director fees benchmarked as at 1 April 1999 with increases linked to the Retail Price Index.

Notes to the Policy table

1. For further information on the performance measures and underpins applicable to the annual bonus and RSP see page 104.
2. In the event of death, the chief financial officer receives a dependent pension provision of 30% of salary (capped), as a legacy provision payable under the previous Policy.
3. Common award terms

Awards under any of the company's share plans referred to in this report may:

- incorporate the right to receive the value of dividends that would have been paid on the shares subject to an award that vests, which may be calculated assuming the shares were reinvested in shares on a cumulative basis. This value will normally be delivered in the form of additional shares
- be granted as conditional share awards, nil cost options or in such other form that the committee determines has the same economic effect
- have any performance conditions applicable to them varied or substituted by the committee if an event occurs which causes the committee to determine that the performance conditions no longer achieve their original purpose, provided that the varied or substituted performance condition would be not be materially less difficult to satisfy; and
- be adjusted in the event of any variation of the company's share capital or any demerger, special dividend or other event that may affect the current or future value of awards.

Remuneration Policy continued

Recruitment

Our recruitment policy is based on a number of key principles:

- we aim to provide a remuneration package which is sufficient to attract, retain and motivate key talent, while at all times ensuring that we pay no more than is necessary, with due regard to the best interests of the company and our shareholders
- the committee will take a number of factors into account in determining the appropriate remuneration package. For example, these may typically include the candidate's experience and calibre, their circumstances, external market influences and arrangements for existing executive directors
- the ongoing remuneration package offered to new executive directors will only include those elements listed within the Policy table
- the committee may also consider providing reasonable and limited relocation benefits, as well as additional benefits to expatriate appointments, where appropriate; and
- the committee will provide full details of the recruitment package for new executive directors in the Annual Report on Remuneration and will provide shareholders with the rationale for the decisions that were taken.

The maximum level of variable pay (excluding buyouts, for which see below) which may be awarded in respect of a recruitment event (internal or external), will not exceed 450% of base salary, representing the current maximum award under the annual bonus and RSP.

In addition, to facilitate recruitment, the committee may make awards to buy out variable incentives which the individual would forfeit at their current employer. The committee will give consideration to any relevant factors, typically including the form of the award (e.g. cash or shares), the proportion of the performance/vesting period outstanding and the potential value of the forfeited remuneration, including performance conditions attached to the awards, the likelihood of those conditions being met, and the timing of any potential payments.

In making buyout awards, the committee may use the relevant provision in the Listing Rules. This allows for the granting of awards specifically to facilitate, in unusual circumstances, the recruitment of an executive director, without seeking prior shareholder approval. In doing so, the committee will comply with the relevant provisions in force at the time.

Where an executive director is appointed from within the organisation, the company will honour legacy arrangements in line with the original terms and conditions.

In the event of the appointment of a new non-executive director, remuneration arrangements will be in line with those detailed on page 93.

Payment for loss of office

In a departure event, the committee will typically consider:

- whether any element of annual bonus should be paid for the financial year. Any bonus paid will normally be limited to the period served during the financial year in which the departure occurs
- whether any of the share element of deferred bonus awarded in prior years should be preserved either in full or in part; and
- whether any awards under the RSP or other legacy share plans (such as the ISP) should be preserved either in full or in part and, if relevant, whether the post-vesting holding period should apply.

The committee has historically maintained a discretionary approach to the treatment of leavers, on the basis that the facts and circumstances of each case are unique.

This provides the committee with the maximum flexibility to review the facts and circumstances of each case, allowing differentiation between good and bad leavers and avoiding 'payment for failure'.

When considering a departure event, there are a number of factors which the committee takes into account in determining appropriate treatment for outstanding incentive awards.

These include:

- the position under the relevant plan documentation or any contractual entitlements
- the individual circumstances of the departure
- the performance of the company/individual during the year to date; and
- the nature of the handover process.

Plan	Good leaver	Bad leaver
DBP	Retained in full, vesting on normal timeframe. In the case of death, awards are accelerated such that they vest on the date of death.	Forfeit on cessation, subject to discretion
RSP	Retained, subject to pro-ration for portion of the three-year initial vesting period served, vesting on the normal timeframe, subject to the satisfaction of any performance conditions or underpins. The post-vesting holding period continues to apply as normal. On death, awards are accelerated such that they vest on the date of death. All retained awards are subject to pro-ration for the portion of the three-year initial vesting period served, and subject to the committee's assessment of satisfaction of any performance conditions or underpins applying, measured at or close to the date of death.	Forfeit on cessation, subject to discretion

In some cases, the treatment is formally prescribed under the rules of the relevant plan so that where there are 'good leaver' circumstances, including death, injury, ill-health, disability, redundancy or sale of the company or business.

The committee considers the leaver circumstances along a continuum, ranging from 'bad leaver' scenarios such as termination of employment for gross misconduct or resignation, through to the 'good leaver' scenarios outlined above. Accordingly, the committee may apply (or disapply) such performance conditions or underpins or time pro-rating to awards vesting in these circumstances as it considers appropriate.

All-employee plans
The treatment of awards under the company's all-employee plans on leaving is as determined under the respective HMRC-approved rules. For saveshare, someone who ceases to be an employee in special circumstances (for example injury, disability, death, or following sale of the company or business where they work) may exercise the option within six months after leaving (or 12 months in the case of death) or the relevant corporate event. If someone leaves for a reason not falling within special circumstances, the option lapses on the date the individual leaves.

Change of control
In the event of a takeover or scheme of arrangement involving the company, long-term incentive and DBP awards will vest, at a minimum, to the extent that any applicable performance measures have been satisfied at the time (subject to the committee's discretion to determine the appropriate level of vesting, having regard to such relevant factors as it decides to take into account). If the acquiring company offers to exchange awards over BT shares for awards over its shares (or shares in another company), awards may be exchanged and continue under the rules of the relevant plan. If within 12 months of a change of control, a participant's employment is terminated by their employer other than for misconduct or performance or they resigned as a result of a reduction of their duties or responsibilities constituting a material breach of the individual's contract, the participant is entitled to receive an amount equal to the difference between the value they received on the change of control and the amount they would have received if the relevant performance condition had been met in full.

In the event of a voluntary winding up of the company, awards may vest on the members' resolution to voluntarily wind-up the company being passed.

Executive director and chairman service contracts
The other key terms of the service contracts for the current executive directors and the chairman are set out below. The termination provisions described above are without prejudice to BT's ability in appropriate circumstances to terminate in breach of the notice period referred to above, and thereby be liable for damages to the executive director or chairman.

In the event of termination by BT, each executive director and the chairman may have entitlement to compensation in respect of his or her statutory rights under employment protection legislation in the UK.

Where appropriate, BT may also meet a director's reasonable legal expenses in connection with either his or her appointment or termination of his or her appointment. The company may, where appropriate and reasonable, cover the cost of outplacement services.

There are no other service agreements, letters of appointment or material contracts, existing or proposed, between the company and the executive directors.

Notice period	• 12 months' notice by the company, six months' notice by the executive director or chairman (there is no fixed expiry date).
Termination payment	• In lieu of giving an executive director or the chairman 12 months' notice, BT may terminate the director's contract and make a payment in lieu of notice to which the director was entitled if he or she had received salary and the value of contractual benefits for the period • In respect of the executive directors, the payments in lieu will be payable in equal monthly instalments until the date on which the notice period would have expired or (if earlier) the date on which the director secures alternative employment with the same or higher basic salary or fee. In the event that the director secures alternative employment at a basic salary of £30,000 or higher, but lower than their salary, payment in lieu will be reduced by the amount of the new lower salary received. The Board retains the right to lower the payment in lieu of the directors new employment if it considers the new employment terms of the director are not appropriately balanced between basic salary and other elements, and may cease making payments entirely where the Board is not satisfied the director is making reasonable efforts to secure alternative employment • In respect of the chairman, the payment in lieu will be payable in equal monthly instalments until the earlier of 12 months from the date of termination or the date the chairman secures alternative equivalent employment.
Remuneration and benefits	• Participation in the annual bonus, long-term incentive and other share plans, is non-contractual. The chairman does not participate in the long-term incentive plans, DBP or any annual bonus • Other benefits which typically include (but are not limited to) car benefits (which may include any of a company car, cash allowance in lieu, fuel allowance, and driver), personal telecommunication facilities and home security, medical and dental cover for the directors and their immediate family, life cover, professional subscriptions, personal tax advice and financial counselling up to a maximum of £5,000 (excluding VAT) a year. The chairman does not receive pension benefits but is entitled to all other benefits • The chairman receives an all-inclusive fee for the role.

Remuneration Policy continued

Illustration of executive director pay scenarios

Our Policy aims to ensure that a significant proportion of pay is dependent on the achievement of stretching performance targets. The committee has considered the level of total remuneration that would be payable under different performance scenarios and is satisfied that, as the graphs opposite illustrate, executive pay is appropriate in the context of the performance required and is aligned with shareholders' interests.

The illustrative scenarios below set out the total remuneration that might be received by each executive director for different levels of performance, based on our Policy.

The minimum reflects base salary, benefits and pension only which are not performance-related.

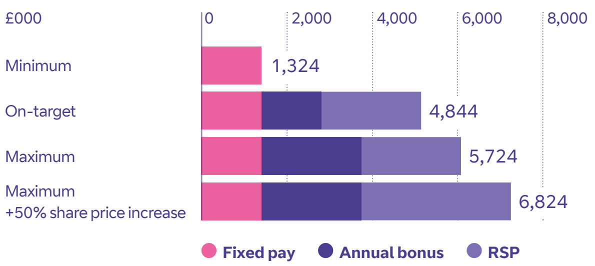
F **Fixed pay**	All scenarios	Consists of total fixed pay – base salary, benefits and pension: • Base salary – salary effective as at 1 June 2020 • Benefits – value of benefits provided to each director in 2019/20 • Pension – cash allowances effective 1 April 2020 (10% of salary for the chief executive and 20% of salary for the chief financial officer).
V **Variable pay**	Minimum	• No payout under the annual bonus • No vesting under the RSP.
	On-target	• On-target payout under the annual bonus of 120% of salary • Full vesting of the RSP at 200% of salary.
	Maximum	• Maximum payout under the annual bonus of 200% of salary • Full vesting of the RSP at 200% of salary.
	Maximum +50% share price increase	• Maximum payout under the annual bonus of 200% of salary • Full vesting of the RSP at 200% of salary, with a 50% share price increase applied.

Fixed pay is calculated as follows:

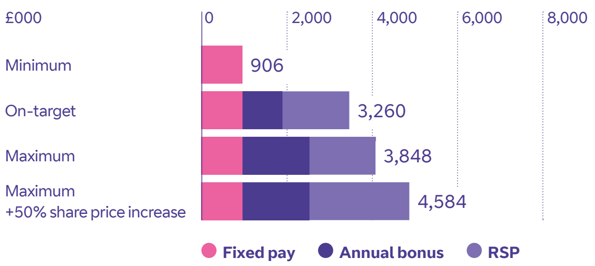
£000	Salary	Benefits	Pension	Total fixed pay
Chief executive	1,100	114	110	1,324
Chief financial officer	735	24	147	906

RSP awards have been shown at face value, with no share price growth or discount rate assumptions, other than the fourth scenario which includes an uplift of 50% on the restricted share awards. All-employee share plans have been excluded, as have any legacy awards held by executive directors.

Chief executive



Chief financial officer



Malus and clawback

Both annual bonus and long-term incentive arrangements are subject to malus and clawback.

Under the malus provision, the committee may apply its discretion to reduce (including to nil) any DBP, ISP or RSP award prior to the award vesting, if facts become known to the committee which justify a reduction.

Under the clawback provision, the committee has discretion to require an employee to pay back to the company part or all of the cash part of the annual bonus within one year of payment. The committee also has discretion to require an employee to pay back part or all of a vested long-term incentive plan award within two years of the award or respective tranche vesting.

The circumstances in which the committee may consider it appropriate to apply clawback and/or malus include, but are not limited to:

- behaviour by a participant which fails to reflect the company's governance and business values
- the extent to which any condition was satisfied was based on an error, or on inaccurate or misleading information or assumptions which resulted either directly or indirectly in an award being granted or vesting to a greater extent than would have been the case had that error not been made
- material adverse change in the financial performance of the company or any division in which the participant works and/or worked
- a material financial misstatement of the company's audited financial accounts (other than as a result of a change in accounting practice)
- any action which results in or is reasonably likely to result in reputational damage to the company
- a material failure in risk management
- corporate failure
- negligence or gross misconduct of a participant; and/or
- fraud effected by or with the knowledge of a participant.

Other elements of remuneration are not subject to malus and clawback provisions.

Consideration of remuneration arrangements throughout the group

The committee considers the pay and conditions of employees throughout the company when determining the remuneration arrangements for executive directors, and is provided with relevant information and updates by the group HR director.

Further detail on pay conditions within the company are provided in **Remuneration in context** on page 108.

Consideration of shareholder views

The committee is strongly committed to an open and transparent dialogue with shareholders on remuneration matters. We believe that it is important to meet regularly with our key shareholders to understand their views on our remuneration arrangements and discuss our approach going forward.

The committee will continue to engage with shareholders and will aim to consult on any material changes to the Policy or other relevant matters.

Legacy matters

The committee can make remuneration payments and payments for loss of office outside of the Policy set out above where the terms of the payment were agreed (i) before the Policy set out in this report came into effect, provided that the terms of the payment were consistent with any applicable policy in force at the time they were agreed; or (ii) at a time when the relevant individual was not a director of the company (or another person to whom the Policy set out above applies) and that, in the opinion of the committee, the payment was not in consideration for the individual becoming a director of the company (or such other person). This includes the exercise of any discretion available to the committee in connection with such payments. For these purposes, payments include the committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted.

Minor amendments

The committee may make minor amendments to the arrangements for the directors as described in the Policy, for regulatory, exchange control, tax or administrative purposes, or to take account of a change in legislation.

Annual remuneration report

This section summarises all elements of the directors' remuneration in 2019/20.
References to 'audited' refer to an audit performed in accordance with UK statutory reporting requirements. For US purposes, disclosures have not been audited from a Public Company Accounting Oversight Board perspective.

Single total figure of remuneration (audited)

The following sets out all emoluments received by directors for the financial years 2019/20 and 2018/19, including bonus and deferred bonus, long-term incentive plans and pension arrangements.

	Fixed pay						Variable pay					
	Basic salary and fees £000		Benefits[a] £000		Pension £000		Annual bonus[c] £000		Long-term incentives £000		**Total £000**	
	2019/20	2018/19	**2019/20**	2018/19	**2019/20**[b]	2018/19	**2019/20**	2018/19	**2019/20**[d,e]	2018/19[f]	**2019/20**	2018/19
Chairman												
Jan du Plessis	**700**	700	**18**	24							**718**	724
Executive directors												
Philip Jansen	**1,100**	275	**114**	39	**165**	41	**1,320**	370	**549**		**3,248**	725
Simon Lowth	**732**	715	**24**	23	**220**	214	**900**	982	**–**		**1,876**	1,934
Non-executive directors												
Ian Cheshire[g]	**4**										**4**	0
Iain Conn	**112**	124									**112**	124
Tim Höttges[h]	**–**	–									**0**	0
Isabel Hudson[i]	**139**	157	**3**	3							**142**	160
Mike Inglis[i]	**132**	126	**3**	2							**135**	128
Matthew Key[i]	**119**	39	**1**	1							**120**	40
Allison Kirkby	**117**	3									**117**	3
Leena Nair[j]	**82**										**82**	0
Nick Rose[i]	**178**	171	**2**	1							**180**	172
Sub-total	**3,415**	2,310	**165**	93	**385**	255	**2,220**	1,352	**549**	0	**6,734**	4,010
Former directors												
Jasmine Whitbread[k]	**94**	134									**94**	134
Total	**3,509**	2,444	**165**	93	**385**	255	**2,220**	1,352	**549**	0	**6,828**	4,144

[a] Benefits provided to the executive directors and the chairman typically include (but are not limited to) car benefits (which may include any of a company car, cash allowance in lieu, fuel allowance, and driver), personal telecommunication facilities and home security, medical and dental cover for the directors and their immediate family, life cover, professional subscriptions, personal tax advice and financial counselling up to a maximum of £5,000 (excluding VAT) a year. For the chief executive, the value for 2019/20 includes a company provided car and personal driver to the value of c. £82,000
[b] Pension allowance paid in cash for the financial year - see 'Total pension entitlement' on pages 98 and 99
[c] Annual bonus shown includes both the cash and deferred share element. As agreed by the committee, 100% of the 2019/20 bonus will be deferred into shares to be granted in June 2020
[d] The RSP 2019 granted on Philip's appointment vested on 20 March 2020. Further details are provided on page 103
[e] The ISP 2017 granted in June 2017 will lapse in full. Further details are provided on page 103
[f] The ISP 2016 granted in June 2016 lapsed in full in May 2019
[g] Ian was appointed as a director on 16 March 2020 and the figure represents his pro-rated remuneration during the year
[h] Under the terms of the Relationship Agreement between BT and Deutsche Telekom and Tim's letter of appointment, no remuneration is payable for this position
[i] Value shown relates to reimbursement of reasonable travelling and other expenses (including any relevant tax) incurred in carrying out their duties
[j] Leena was appointed as a director on 10 July 2019 and the figure represents her pro-rated remuneration during the year
[k] Jasmine stepped down as a director on 6 December 2019.

Additional disclosures relating to the single figure table (audited)

Salaries and fees
Executive directors' salaries are reviewed annually, with any increases typically effective from 1 June. A 2.5% increase to Simon Lowth's salary was agreed for 1 June 2019, in line with increases for the UK management population and lower than the increase given to team members. Simon's new base salary was £735,438. Philip Jansen's salary of £1,100,000 was fixed for five years at the time of his appointment in January 2019.

The fees for non-executive directors reflect committee-related or other additional responsibilities, including on a pro-rated basis for any appointments during the year. Full remuneration details are set out on page 105.

Total pension entitlements
We closed the BT Pension Scheme (BTPS) for most members on 30 June 2018. None of the executive directors participate in future service accrual in the BTPS.

New UK employees are eligible to join a defined contribution scheme, typically a personal pension plan. For executive directors, the company agrees to pay a fixed percentage of their salary each year which can be put towards the provision of retirement benefits.

During the year, Philip Jansen received an annual allowance equal to 15% of salary in lieu of pension provision as set out in the table on page 98. BT also provides death in service cover consisting of a lump sum equal to four times his salary.

During the year Simon Lowth received an annual allowance equal to 30% of salary in lieu of pension provision as set out in the table on page 98. BT also provides death in service cover consisting of a lump sum equal to four times his salary plus a dependent's pension equal to 30% of his capped salary.

Annual bonus

Both executive directors were eligible for an on-target bonus in respect of 2019/20 of 120% of salary. The maximum bonus payable to the chief executive and chief financial officer respectively was 240% and 180% of salary. The annual bonus is based on performance against key financial and non-financial metrics, and strategic objectives. The tables below show the outturn against each measure applying to the executive directors in 2019/20. For the 20% of the bonus based on strategic objectives, the personal performance of both executive directors was measured versus a set of defined objectives.

For Philip Jansen, the assessment of personal performance was carried out by the chairman in discussion with the independent non-executive directors. *The Nominations Committee* with recommendations from Philip Jansen reviewed the performance of the *Executive Committee* members, including Simon Lowth.

Strategic objectives Philip Jansen

Category & objectives	Assessment of performance
Network • Deliver our ambition of an integrated corporate, network and product strategy, including rollout of key investment programmes such as FTTP and 5G.	• Met 'first to 5G' target ; live in 78 cities and large towns • Doubled FTTP premises passed in the year to 2.6m • Launched BT Halo converged propositions to Consumer & Enterprise customers • EE retained 'best mobile network' for the sixth consecutive year in 2019 RootMetrics survey.
Reputation • Continue to build trust, confidence and reputation with the regulator, Government and other stakeholders.	• Customer complaints to Ofcom reduced by 41% year-on-year for BT consumer broadband • Improvements in reputation with key stakeholders: Overall Favourability up from 47% in 2017 to 51% in 2019; Trust up from 55% to 67% and BT Heading in the Right Direction up from 47% to 63% (2019 independent Populus research).
ESG • Launch a new national digital skills programme (Skills for Tomorrow) to help customers, colleagues and communities to improve their digital skills • Tackle climate change	• Skills for Tomorrow successfully launched during 2019 with the ambition to reach 10m people in the UK with help to improve their digital skills by 2025. It builds on our longstanding programmes such as Barefoot Computing which has reached more than 2.8m children since 2014 • Delivered a 42% reduction in carbon intensity since 2016/17, as part of our target to cut carbon emissions intensity by 87% by 2030[a].
Colleague • Transform BT's operating model, culture and capabilities to the benefit of all colleagues.	• Engagement rose 2% over 2019/20 with a 4% improvement in colleagues recommending BT • Set up operating model to deliver multi year Simplify programme • Launched *Colleague Board* with members drawn from across our customer-facing and corporate units.
Leadership • Support, challenge and develop the *Executive Committee* • Develop succession pipeline for key senior roles.	• Strengthened key commercial and corporate functions pipelines
Final outcome:	**160% of target (80% of maximum)**

Strategic objectives Simon Lowth

Category & objectives	Assessment of performance
Financial • Delivery of financial year 2019/20 budget and development of value-creating medium term plan and financing strategy for financial years 2020/21 - 2024/25.	• Financial performance in line with market guidance with the exception of revenue due to a strategic decision to withdraw from a large customer contract • Strong leadership and planning for ongoing challenges such as the Government's announcement on high-risk vendors and Covid-19 • Successfully delivered FY20 financing strategy to maintain strong balance sheet, including issuance of BT's inaugural hybrid bond • Delivered commitment of £1.6bn of annualised benefits from transformation one year early.
Customer • Meet function's customer experience targets and support the business with timely and accurate reporting.	• Strong advocacy of customer experience as a priority across the business; targeted investment decisions to support delivery • Delivered service objectives in Shared Service operations and enhanced facilities management (ie cleaning) through Covid-19.
Strategic • Define and support delivery of Better Workplace Programme • Deliver procurement savings in excess of medium term plan.	• Successfully undertook non-core divestments in challenging markets (BT Fleet Solutions, Tikit, BT España, France and certain domestic operations in Latin America) • Completed sale of BT Centre and finalised arrangements for new HQ at One Braham. Secured and announced Better Workplace strategic hubs in the UK • Outperformed on delivery of targeted procurement savings in 2019/20.
Colleague • Progress ongoing transformation of finance and business services functions • Further improve functional engagement levels.	• Significant and proactive improvements to finance and risk management function, including successful implementation of first phase of finance function transformation, enhanced risk management processes, and improved financial and risk modelling capabilities • Finance function engagement scores improved by seven percentage points.
Final outcome:	**140% of target (93% of maximum)**

[a] Scope 1 & 2 greenhouse gases per unit of gross value added.

Annual remuneration report continued

Measure	Weighting	Threshold	Target	Stretch	Actual	Payout (% of max)
Adjusted EPS (p)	**25%**	20.9	22.0	23.6	23.5	**97%**
Normalised free cash flow (£m)	**25%**	1,956	2,059	2,265	2,011	**38%**
Revenue (incl. transit) (£m)	**10%**	22,833	23,064	23,410	22,824	**0%**
Customer experience	**20%**	50	100	200	78	**39%**

EPS performance was close to the stretch target, while cash flow and customer experience were between threshold and target. Revenue performance was below the threshold. The total formulaic outcome for the business objectives (collectively accounting for 80% of the bonus) was therefore 103.8% of target. However, when considering the final bonus outcome, the committee took account of the overall financial and operational performance of the business during the year, including the fall in share price, and used its discretion to adjust the outcome under the business objectives to 85% of target.

In addition, in recognition of the current economic environment and the dividend decision, the executive directors have agreed to defer all their bonus for 2019/20 into shares for a further three years. Deferred share awards will be granted in June 2020 and will vest after three years subject to continued employment only. By default, the exceptional element of the deferred award (i.e. anything in excess of the normal deferral level of one third) will be retained on cessation of employment.

The final bonus outturns for the executive directors are set out below:

	Business performance (80%)		Strategic objectives (20%)	Overall bonus		
	Formulaic outcome	Following discretion	Outcome	% of target	% of max	Value
Philip Jansen	103.8% of target	85% of target	160% of target	100%	50%	£1,320,000
Simon Lowth	103.8% of target	85% of target	140% of target	102%	68%	£900,176

2017 ISP

The ISP is a conditional share award. The committee assesses the performance conditions to 31 March 2020 and the awards would ordinarily vest in May 2020. The performance conditions are based 40% on relative total shareholder return (TSR), 40% on normalised free cash flow, and 20% on growth in underlying revenue (excluding transit) over a three-year performance period from 1 April 2017 to 31 March 2020.

As set out in the table below, the threshold performance target in respect of each measure was not met and therefore the awards lapsed in full and no payment was made.

Measure	Weighting	Threshold	Maximum	Actual	Payout (% of max)
Total shareholder return (rank)	40%	11th	6th	21st	0%
Normalised free cash flow (£)	40%	£7.92bn	£8.92bn	£7.86bn	0%
Underlying revenue growth (excluding transit) (%)	20%	1.8%	4.0%	(3.2)%	0%

Awards granted during the year (audited)

2019 ISP

The 2019 ISP awards were made in June 2019 as set out below and on page 103. An award of 400% of salary was made to Philip Jansen and 350% of salary to Simon Lowth. The face value is based on the share price at the date of grant of 207.45p. The grant price is calculated using the average middle-market price of a BT share for the three days prior to grant.

Director	Date of award	ISP award (shares)	Face value of award
Philip Jansen	19 June 2019	2,120,993	£4,400,000
Simon Lowth	19 June 2019	1,240,796	£2,574,031

These awards are conditional share awards. Performance conditions attached to the awards are based on 40% relative TSR, 40% normalised free cash flow, and 20% growth in underlying revenue including transit, each measured over a three-year performance period from 1 April 2019 to 31 March 2022. The tables below set out targets and vesting levels for the three performance measures.

Relative TSR (40%)

TSR position	Proportion vesting (of TSR portion of award)	Proportion vesting (of overall award)
1-4	100%	40%
5	95%	38%
6	75%	30%
7	55%	22%
8	35%	14%
9-16	0%	0%

Following the acquisition of Sky, which had previously been included, by Comcast Inc., it was removed from the TSR comparator group. The group applying to the 2019 award is therefore as follows:

Centrica	Orange	Telecom Italia
Deutsche Telekom	Proximus	Telefónica
KPN	SSE	Telenor
Liberty Global	Swisscom	Telia Company
National Grid	TalkTalk	Vodafone

Financial targets

Measure 2019/20–2021/22	Threshold	Level of vesting	Maximum	Level of vesting[a]
Normalised free cash flow (40%)	£5.9bn	25%	£7.2bn	100%
Underlying revenue growth (including transit) (20%)	(1.0)%	25%	2%	100%

[a] Vesting levels between threshold and maximum will be on a straight line basis.

When setting the targets, the committee takes into account the budget, medium term plan and market consensus at the time. The committee believes the performance ranges for free cash flow and revenue measures are challenging, and the financial performance necessary to achieve the upper end of the range for each measure is stretching.

When ISP awards vest, additional shares representing the value of reinvested dividends on the underlying shares that vest are added.

The awards are subject to a further holding period of two years, commencing from the end of the performance period and applied to the net number of shares received after tax and other statutory deductions. During the holding period, no further performance measures will apply.

2019 deferred shares

We awarded one third of the 2018/19 annual bonus in deferred shares. The table below provides further details.

Director	Date of award	Number of deferred shares	Face value of award[a]
Philip Jansen	19 June 2019	59,387	£123,198
Simon Lowth	19 June 2019	157,715	£327,180

[a] Face value based on share price at grant of 207.45p. The grant price is calculated using the average middle-market price of a BT share for the three days prior to grant.

Deferred shares are not subject to performance conditions and have a three-year vesting period. Details of all interests in deferred shares are set out on page 103.

When deferred share awards vest, additional shares representing the value of reinvested dividends on the underlying shares are added.

Payments for loss of office (audited)

No payments were made during the year for loss of office.

Former directors (audited)

No payments were made to former directors during the year.

Directors' share ownership (audited)

The committee believes that the interests of the executive directors should be closely aligned with those of shareholders. The aim is to encourage the build-up of a meaningful shareholding in the company over time by retaining shares received under an executive share plan (other than shares sold to meet tax and other statutory deductions) or from purchases in the market.

Under the existing shareholding requirement, the chief executive is required to build up a shareholding equal to 300% of salary, and the chief financial officer 250% of salary.

Subject to the approval of the new Policy, the shareholding requirement for both executive directors will be increased to 500% of salary as set out in the table below.

	Shareholding requirement % of salary	
Director	Current Policy	New Policy
Philip Jansen	300%	500%
Simon Lowth	250%	500%

Executive directors must achieve the increased shareholding guideline within five years of the approval of the new Policy or, in the case of any new executive directors appointed, within five years of their date of appointment.

Under the new Policy, executive directors will be required to retain shares to the value of 500% of salary or, the shares held at the date of leaving if lower, for a period of two years post-cessation of employment.

The company encourages the chairman and independent non-executive directors to purchase, on a voluntary basis, BT shares with an aggregate value of £5,000 on average each year (based on acquisition price) to further align the interests of non-executive directors with those of our shareholders. The directors are asked to hold these shares until they retire from the Board. This policy is not mandatory.

This policy does not apply to the Deutsche Telekom representative director who has appointed to the Board as a non-independent, non-executive director under the terms of the EE acquisition in January 2016. This helps avoid any conflict of interest.

Annual remuneration report continued

Directors' interests at 31 March 2020 or on cessation (audited)
The following table shows the beneficial interests in the company's shares of directors and their families as at 31 March 2020 (or at the point of leaving for directors who left during the year).

The table includes interests held by the executive directors under the company's share plans. The numbers represent the maximum possible vesting levels. The ISP awards will only vest to the extent the performance conditions are met over the three-year period. Full details of all ISP and DBP awards, including performance periods and vesting conditions, are set out on page 103.

For executive directors we use the average BT share price over the preceding 12 months (or the share price at acquisition date if higher) to determine whether the minimum shareholding requirement has been reached.

During the period 1 April 2020 to 6 May 2020, there were no movements in directors' beneficial holdings or other interests in shares. The directors, as a group, beneficially own less than 1% of the company's shares.

Director	Beneficial holding owned outright at 1 April 2019	Beneficial holding owned outright at 31 March 2020	Unvested interests in share plans			Total shareholding at 31 March 2020[d]	Percentage of salary held
			DBP[a]	ISP[b]	Other[c]		
Philip Jansen	771,313	3,059,481	64,959	3,896,440	-	3,093,909	520%
Simon Lowth	157,379	582,436	391,881	3,804,576	10,975	790,133	199%
Jan du Plessis	501,599	502,475	-	-	-	502,475	N/A
Ian Cheshire[e]	n/a	0	-	-	-	0	N/A
Iain Conn	19,442	19,442	-	-	-	19,442	N/A
Tim Höttges	0	0	-	-	-	0	N/A
Isabel Hudson	24,090	24,090	-	-	-	24,090	N/A
Allison Kirkby	0	25,000	-	-	-	25,000	N/A
Mike Inglis	29,091	29,091	-	-	-	29,091	N/A
Matthew Key	31,000	115,933	-	-	-	115,933	N/A
Leena Nair[f]	n/a	0	-	-	-	0	N/A
Nick Rose	400,000	400,000	-	-	-	400,000	N/A
Jasmine Whitbread[g]	11,832	11,832	-	-	-	11,832	N/A
Total	**1,945,746**	**4,769,780**	**456,840**	**7,701,016**	**10,975**	**5,011,905**	**N/A**

a Subject to continued employment
b Subject to performance
c Interests in saveshare, an HMRC-approved all-employee plan
d The value of shares held for the purpose of satisfaction of the shareholding guideline. This includes all beneficial holdings, plus outstanding share awards that are subject to continued employment only included on a net-of-tax basis, using a 12-month average share price of £1.8507
e Ian was appointed as a director on 16 March 2020
f Leena was appointed as a director on 10 July 2019
g Jasmine stepped down as a director on 6 December 2019 and the number reflects her holding at that date.

Outstanding share awards at 31 March 2020 (audited)

The table below sets out share awards granted to the executive directors

	1 April 2019	Awarded/ granted	Dividends re-invested	Vested	Lapsed	Total number of award shares at 31 March 2020	Vesting date	Price at grant	Market price at date of vesting	Market price at date of exercise	Monetary value of vested award £000
Philip Jansen											
DBP 2019[a]	-	59,387	5,572	-	-	64,959	01/08/2022	207.45p	-		-
ISP 2018[b]	1,441,160	-	135,244	-	-	1,576,404	31/03/2021	233.56p	-		-
ISP 2019[c]	-	2,120,993	199,043	-	-	2,320,036	31/03/2022	207.45p	-		-
RSP 2018[d]	378,221	-	35,493	413,714		-	20/03/2020	214.6p	132.63p		549
Simon Lowth											
DBP 2017	47,435	-	4,451	-	-	51,886	01/08/2020	286.40p	-		-
DBP 2018	153,113		14,367	-	-	167,480	01/08/2021	211.01p			
DBP 2019[a]	-	157,715	14,800			172,515	01/08/2022	207.45p			
ISP 2016[e]	710,100	-	-	-	710,100	-	31/03/2019	405.38p	-		
ISP 2017[f]	965,855	-	90,639	-	-	1,056,494	31/03/2020	286.4p	-		
ISP 2018[g]	1,271,520	-	119,325	-	-	1,390,845	31/03/2021	211.01p	-		
ISP 2019[c]	-	1,240,796	116,441	-	-	1,357,237	31/03/2022	207.45p	-		-
saveshare 2019[h]	-	10,975	-	-	-	10,975	01/08/2024	164p			

[a] Awards granted on 19 June 2019. The number of shares subject to awards was calculated using the average middle market price of a BT share for the three days prior to grant

[b] Award granted on 1 February 2019. The number of shares subject to award was calculated using the average middle-market price of a BT share for the three days prior to grant of 233.56p. 40% of each award is linked to TSR compared with a group of 17 companies, 40% is linked to a three-year normalised free cash flow measure and 20% to a measure of underlying revenue growth (excluding transit) over three years

[c] Awards granted on 19 June 2019. The number of shares subject to award was calculated using the average middle-market price of a BT share for the three days prior to grant of 207.45p. 40% of each award is linked to TSR compared with a group of 16 companies, 40% is linked to a three-year normalised free cash flow measure and 20% to a measure of underlying revenue growth (including transit) over three years

[d] Award granted on 1 February 2019. The number of shares subject to award was calculated using the average middle-market price of a BT share for the three days prior to grant of 241.6p. This was a buyout award to compensate Philip for the loss in shares that he forfeited on leaving Worldpay to join BT

[e] Award granted on 29 July 2016. The number of shares subject to award was calculated using the average middle-market price of a BT share for the three days prior to grant of 233.56p. 40% of each award is linked to TSR compared with a group of 21 companies, 40% is linked to a three-year normalised free cash flow measure and 20% to a measure of underlying revenue growth (excluding transit) over three years. Performance against the TSR, normalised free cash flow and revenue targets was below the threshold level and none of the shares vesting under the 2016 ISP. The award lapsed in full in May 2019

[f] Award granted on 22 June 2017. The number of shares subject to award was calculated using the average middle-market price of a BT share for the three days prior to grant of 286.40p. 40% of each award is linked to TSR compared with a group of 21 companies, 40% is linked to a three-year normalised free cash flow measure and 20% to a measure of underlying revenue growth (excluding transit) over three years

[g] Award granted on 19 June 2018. The number of shares subject to award was calculated using the average middle-market price of a BT share for the three days prior to grant of 211.01p. 40% of each award is linked to TSR compared with a group of 17 companies, 40% is linked to a three-year normalised free cash flow measure and 20% to a measure of underlying revenue growth (excluding transit) over three years

[h] Option granted on 14 June 2019 under the HMRC-approved employee saveshare scheme, under which all employees of the company are entitled to participate.

Annual remuneration report continued

Implementation of new Policy in 2020/21

Base salary
Philip Jansen's base salary of £1,100,000 was agreed on appointment and is fixed for five years. Therefore, there is no increase for 2020/21.

In line with the agreed approach for our UK management population, Simon Lowth will not receive a salary increase effective 1 June 2020.

	2020/21	
Director	Base salary	% change
Philip Jansen	£1,100,000	0%
Simon Lowth	£735,438	0%

Benefits
For executive directors, the committee has set benefits in line with the new Policy. No changes are proposed to the benefit framework for 2020/21.

Pension
In line with the new Policy, the executive directors will have a reduced pension provision for 2020/21.

Director	% of salary
Philip Jansen	10% in lieu of pension provision
Simon Lowth[a]	20% in lieu of pension provision

[a] This will further reduce to 15% of salary in 2021/22 and 10% of salary in 2022/23 (effective from 1 April at the start of each financial year).

Annual bonus
The executive directors are eligible for an on-target and maximum bonus payment of 120% and 200% of salary respectively.

The committee welcomed and agreed the chief executive and chief financial officer's proposal to defer their full annual bonus for 2020/21 into shares, to the extent that any annual bonus is payable. This means that the executive directors will not take any cash bonuses for two consecutive years.

The 2020/21 annual bonus structure measures and weightings are set out below.

Category	Measure	Weighting
Financial	**Adjusted EBITDA**	35%
	Normalised free cash flow	35%
Customer	**Group Net Promoter Score**	10%
Converged networks	**5G customers** – the number of customers on our 5G network	5%
	FTTP connections – the number of connections in the Openreach FTTP network	5%
Digital impact & sustainability	**Carbon emissions** – progress towards an 87% reduction in carbon emissions intensity by 2030	5%
	Skills for Tomorrow – progress towards our ambition to reach 10m people in the UK with help to improve their digital skills by 2025	5%

We do not publish details of the financial targets in advance as these are commercially confidential. We will publish achievement against these targets at the same time as we disclose bonus payments in the 2021 Report on directors' remuneration so shareholders can evaluate performance against those targets.

Restricted share plan (RSP)
Subject to the approval of the Policy and the relevant plan rules at our 2020 AGM, awards will be granted to executive directors under the RSP in August 2020.

When considering grant levels each year, the committee will take account of share price performance over the preceding year. Noting the share price performance during the year prior to the Covid-19 crisis and the dividend decision, the first RSP award for executive directors will not exceed 175% of salary, though the committee will make a final decision on the award level closer to the grant date in August 2020 taking into consideration several factors including the share price performance between now and then. Details of the awards granted will be disclosed at the point of grant.

This award will vest in three equal tranches after three, four and five years. A holding period will apply such that no shares may be sold until year five.

Two underpins will apply over the initial three-year vesting period, as follows:
- the average return on capital employed must exceed the weighted average cost of capital over the same period; and
- there must have been no environmental, social or governance issues which have resulted in material reputational damage for the company.

Should one or both of the underpins not be met, the committee may at its discretion reduce the number of shares vesting, including to nil. RSP awards are subject to malus and clawback provisions as set out in the Policy, and the committee retains the ultimate discretion to adjust vesting levels in exceptional circumstances, should they not reflect the overall performance of the business over the vesting period, or for any other reason.

Chairman and non-executive director remuneration
The fees for non-executive directors were reviewed during the year by the chairman and executive directors, taking into consideration the role and requirements of BT, together with the fees paid to non-executive directors at companies of a similar size and complexity, previous years' increases and no salary increases for the UK management population. It was agreed that there would be no increase in fees.

The basic fee for non-executive directors is £77,000 per year. There are additional fees for membership and chairing a Board committee, details of which are set out in the table below:

Committee	Chair's fee	Member's fee
Audit & Risk	£35,000	£25,000
BT Compliance[a]	£ 25,000	£12,000
Digital Impact & Sustainability	£14,000	£8,000
Investigatory Powers Governance	n/a[b]	£8,000
Nominations	n/a[b]	£10,000
Remuneration	£30,000	£15,000

[a] A sub-committee of the *Audit & Risk Committee*
[b] Where the chairman or chief executive acts as chair of a board committee, no additional committee chair fee is payable.

The senior independent director receives an additional fee of £27,000 per annum.

The designated non-executive director for workforce engagement on the *Colleague Board* receives an additional fee of £10,000 per annum.

No element of non-executive director remuneration is performance-related. Non-executive directors do not participate in BT's bonus or employee share plans and are not members of any of the company pension schemes.

The committee agreed a fee of £700,000 per year, fixed for five years on the chairman's appointment in November 2017 and therefore no review of his fee was undertaken.

Other remuneration matters

Advisers

During the year, the committee received independent advice on executive remuneration matters from Deloitte LLP. Deloitte received £206,745 in fees for these services. The fees are charged on a time-spent basis in delivering advice. That advice materially assisted the committee in their consideration of matters relating to executive remuneration and the new Policy.

Deloitte is a founder member of the Remuneration Consultants Group and as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The committee appointed Deloitte to the role of independent advisers to the committee in 2012 following a competitive tender exercise conducted by the committee. The committee is comfortable that the Deloitte engagement partner and team, who provide remuneration advice to the committee, have no connections with BT that may impair their independence or objectivity.

In addition, during 2019/20, Deloitte provided the company with advice on corporate and indirect taxes, assistance with regulatory, risk and compliance issues and additional consultancy services.

Dilution

We use both treasury shares and shares purchased by the BT Group Employee Share Ownership Trust (the Trust) to satisfy our all employee share plans and executive share plans. Shares held in the Trust do not have any voting rights.

At the end of 2019/20, shares equivalent to 2.32% (2018/19: 2.83%) of the issued share capital (excluding treasury shares) would be required for all share options and awards outstanding.

Of these, we estimate that for 2020/21, shares equivalent to approximately 0.26% (2019/20: 0.39%) of the issued share capital (excluding treasury shares) will be required for the all-employee share plans.

External appointments held by executives

The *Nominations Committee* determines the policy, and if thought fit recommends to the Board for approval the taking up of external appointments including directorships by members of the *Executive Committee*, including the executive directors, and other senior direct reports to the chief executive.

Previous Annual General Meeting (AGM) voting outcomes

The table below sets out the previous votes cast at the AGM in respect of the Annual Remuneration Report and the Directors' Remuneration Policy.

	For % of votes cast Number	Against % of votes cast Number	Withheld votes Number
Annual Remuneration Report at the 2019 AGM	91.90 6,011,286,559	8.10 530,098,249	30,829,140
Directors' remuneration policy at the 2017 AGM	96.12 6,654,431,173	3.88 268,487,768	14,886,907

Withheld votes are not counted when calculating voting outcomes.

Committee evaluation 2019/20

During 2019/20 we carried out an internal evaluation of the committee led by the chairman and the company secretary. Members, attendees and Deloitte completed questionnaires and the committee discussed the responses and key findings. The committee agreed the following key actions for 2020/21:

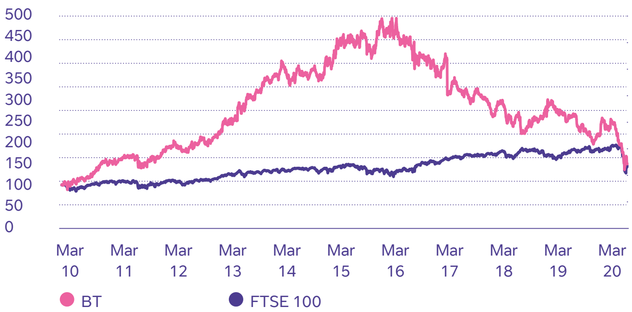
Key areas of focus	Agreed actions
Remuneration advisers	Given Deloitte have been the committee's remuneration advisers for a number of years, consider an external market review of advisers during 2020/21.
Increasing knowledge of committee members	Consider whether any specific updates on external benchmarking and general market trends should be presented to the committee at an appropriate meeting or as part of specific agenda items.
Papers	Review whether further improvements to papers can be made.

Annual remuneration report continued

Comparison of chief executive remuneration to total shareholder return (unaudited)

Total shareholder return (TSR) is the measure of the returns that a company has provided for its shareholders, reflecting share price movements and assuming reinvestment of dividends. The graph below illustrates the performance of BT Group plc measured by TSR relative to a broad equity market index over the past ten years. We consider the FTSE 100 to be the most appropriate index against which to measure performance, as BT has been a member of the FTSE 100 throughout the ten-year period.

BT's TSR performance vs the FTSE 100



Source: Datastream
The graph shows the relative TSR performance of BT and the FTSE 100 over the past ten years.

History of chief executive remuneration

Year end	Chief Executive	Total remuneration £000	Annual bonus (% of max)	ISP vesting (% of max)
2020	Philip Jansen[a]	3,248	50%	N/A
2019	Philip Jansen[a]	725	56%	N/A
	Gavin Patterson[b]	1,719	28%	0%
2018	Gavin Patterson	2,307	54%	0%
2017	Gavin Patterson	1,345	0%	0%
2016	Gavin Patterson	5,396	45%	82.01%
2015	Gavin Patterson[b]	4,562	58%	67.4%
2014	Gavin Patterson[c]	2,901	62%	78.7%
	Ian Livingston[d]	4,236	35%	63.4%
2013	Ian Livingston	9,402	65%	100%
2012	Ian Livingston	8,520	73%	100%
2011	Ian Livingston	4,009	79%	0%
2010	Ian Livingston	3,556	71%	0%

[a] Philip was appointed as a director on 1 January 2019 and became chief executive from 1 February 2019. His first ISP award was made in February 2019
[b] Gavin stood down as chief executive at midnight on 31 January 2019 and Philip took over from 1 February 2019
[c] The total remuneration figure includes the ISP award as CEO BT Retail and the first award as chief executive, granted in 2013
[d] Ian stepped down on 10 September 2013 and Gavin took over from that date.

Directors’ service agreements and letters of appointment

The following table sets out the dates on which directors’ service agreements/initial letters of appointment commenced and termination provisions:

Chairman and executive directors

	Commencement date	Termination provisions
Jan du Plessis	1 June 2017	Terminable by the company on 12 months’ notice and by the director on six months’ notice.
Philip Jansen	1 January 2019	
Simon Lowth	6 July 2016	

Independent non-executive directors

	Commencement date	Termination provisions
Ian Cheshire	16 March 2020	Letter of appointment on a rolling basis terminable by either party by three months’ written notice.
Iain Conn	1 June 2014	
Isabel Hudson	1 November 2014	
Mike Inglis	1 September 2015	
Matthew Key	25 October 2018	
Allison Kirkby	15 March 2019	
Leena Nair	10 July 2019	
Nick Rose	1 January 2011	

Non-independent, non-executive director

	Commencement date	Termination provisions
Tim Höttges	29 January 2016	Appointed as a non-independent, non-executive director under the terms of the Relationship Agreement between BT and Deutsche Telekom. The appointment is terminable immediately by either party.

As announced on 16 March 2020, Sara Weller will join the Board as an independent non-executive director. Sara’s appointment becomes effective on 16 July 2020, immediately before the 2020 AGM. Also, as announced on 1 May 2020, Adel Al-Saleh will join the Board with effect from 15 May 2020, as a non-independent, non-executive director and Deutsche Telekom’s nominated representative, replacing Tim Höttges.

There are no other service agreements, letters of appointment or material contracts, existing or proposed, between the company and any of 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.

Non-executive directors’ letters of appointment

Each independent non-executive director has an appointment letter setting out the terms of his or her appointment. We ask each non-executive director to allow a minimum commitment of 22 days each year, subject to committee responsibilities, and to allow slightly more in the first year in order to take part in the induction programme. The actual time commitment required in any year may vary depending on business and additional time may be required during periods of increased activity.

During the year, following the recommendation of the *Nominations Committee*, the Board agreed an amendment to the term and notice period for the current and new independent non-executive directors such that they are now on a rolling basis subject to a mutual three-month notice period and annual election/re-election by shareholders at the AGM.

Tim Höttges was appointed as a non-independent, non-executive director in January 2016 following Deutsche Telekom’s nomination, and his appointment letter reflects the terms of the Relationship Agreement between BT and Deutsche Telekom. Adel Al-Saleh has also been appointed on the same basis.

Inspection by the public

The service agreements and letters of appointment are available for inspection by the public at BT’s registered office.

Remuneration in context

Consideration of colleague and stakeholder views

Our employees are vital to our business. At BT, we believe in fairness throughout the company. The group operates a number of general principles applied to all levels:

- We will provide a competitive package with reference to the relevant market for each colleague
- We will ensure colleagues can share in the success of the business, and operate a variety of all-employee share plans, encouraging colleagues to become shareholders
- Where appropriate, variable remuneration is provided to incentivise employees towards driving the strategic aims of the business. Performance is based on both individual performance and the performance of the company as a whole, measured on a consistent basis for senior executives and all other employees
- We offer a range of employee benefits, many of which are available to all colleagues
- We aim for transparency and a fair cascade of remuneration throughout the group
- Employment conditions for all employees reflect our values and are commensurate with a large publicly-listed company, including high standards of health and safety and equal opportunities.

The committee supports fairness and transparency of remuneration arrangements and the Policy has been designed to align with the remuneration philosophy and principles that underpin remuneration across the wider group. To support this, the committee receives regular updates on remuneration practices across the group.

Whilst the committee does not directly consult with our employees as part of the process of determining executive pay, the Board does receive feedback from employee surveys that takes into account remuneration throughout the organisation, as well as feedback from the *Colleague Board*, which is fed back to the committee by the designated non-executive director for workforce engagement.

When setting executive directors' remuneration, the committee considers the remuneration of other senior managers and colleagues in the group more generally to ensure that arrangements for executive directors are appropriate in this context. When determining salary increases for executive directors, the committee considers the outcome of the wider pay review for the group.

Chief executive pay ratio

The table below sets out the chief executive pay ratios as at 31 March 2020, as well as those reported in respect of the prior year. The report will build up over time to show a rolling ten-year period.

The ratios compare the single total figure of remuneration of the chief executive with the equivalent figures for the lower quartile (P25), median (P50) and upper quartile (P75) employees.

A significant proportion of the chief executive's remuneration is delivered through long-term incentives, where awards are linked to share price movements over the longer term. This means that the ratios will depend significantly on long-term incentive outcomes and may fluctuate from year to year.

Total remuneration

		Employee remuneration			Pay ratio		
	Chief Executive	P25	P50	P75	P25	P50	P75
2019	£2,444,000	£34,281	£41,477	£51,594	71:1	59:1	47:1
2020	**£3,248,012**	**£34,881**	**£42,173**	**£51,351**	**93:1**	**77:1**	**63:1**

Base salary

		Employee remuneration			Pay ratio		
	Chief Executive	P25	P50	P75	P25	P50	P75
2019	£1,222,000	£30,090	£35,918	£41,740	37:1	31:1	27:1
2020	**£1,100,000**	**£31,144**	**£37,321**	**£42,800**	**35:1**	**29:1**	**26:1**

We have used the ‘Option B’ methodology (based on gender pay reporting), as the most robust way to identify the individual reference points within an organisation with multiple operating segments.

The P25, P50 and P75 employees were identified from the company’s gender pay reporting data, based on the April snapshot period at the start of each respective year. We then identified the 80 employees above and below each of the ‘P’ points to form enlarged groups. This approach is thought to be an appropriate representation – while the underlying data is fairly consistent given the size of the UK population, this methodology reduces volatility in the underlying data, and helps account for differences in the gender pay and pay ratio calculation methodologies. Other than the exclusion of a small number of data points for leavers and divestments, no other adjustments were made to the underlying data.

The total FTE remuneration paid during the year in question for each employee in each of the groups was then calculated, on the same basis as the information set out in the ‘single figure’ table for the chief executive. Bonus payments in respect of each year have been determined based on the latest available information at the time of analysis. The median total remuneration figure for each group was then used to determine the three ratios.

Percentage change in remuneration of the chief executive and all employees

The table below illustrates the increase in salary, benefits and annual bonus for Philip Jansen in the role as chief executive and that of a representative group of the company’s employees. For these purposes, we’ve used the UK management and technical employee population representing around 25,495 people. We believe this broad group provides the most meaningful comparison as they have similar performance-related pay arrangements as our executive directors.

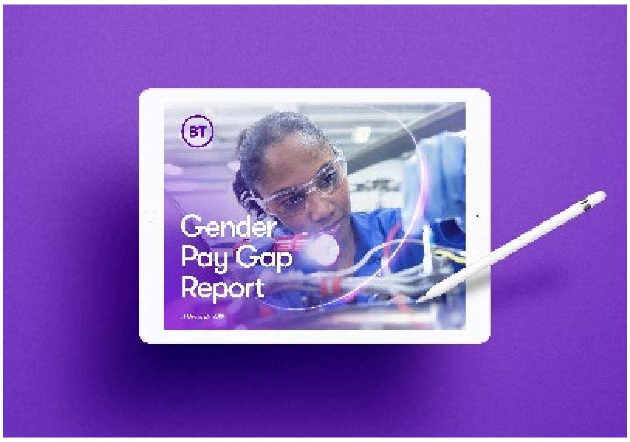
	Salary	Benefits[a]	Bonus[a]
% Change in chief executive remuneration	0%	(26.7)%	(10.7)%
% Change in comparator group	2.5%	0%	(26.1)%

[a] As he was appointed on 1 February 2019, the increase in benefits and annual bonus for the chief executive has been determined on a full-year equivalent basis to ensure a like-for-like comparison.

Relative importance of the spend on pay

The table below shows the percentage change in total remuneration paid to all employees compared to expenditure on dividends and share buybacks.

Area	2019/20 (£m)	2018/19 (£m)	% change
Remuneration paid to all employees	5,327	5,382	(1)%
Dividends/share buybacks	1,607	1,513	6%



Gender pay gap reporting

This is the third year in which we have published our Gender Pay Gap results. Our 2019 report, including contextual information and detail on the initiatives we have underway to close our gender pay gap, can be viewed on our website.

At a group level, our median hourly pay difference between male and female colleagues is 4.8% (reduced from 5.0% in 2018). This compares favourably with the telecommunications industry median of 12% (ONS provisional), and the UK national median of 17.3%. While we have made progress in addressing our gender pay gap, the gap remains as we have fewer women than men at senior and leadership levels, and fewer women generally throughout our organisation. We will continue to monitor and address this issue, drawing on research from around the world.

Our Gender Pay Gap report is available on our website bt.com/genderpaygap

Nick Rose
Chair of the Remuneration Committee
6 May 2020

Directors' information

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and the directors have elected to prepare the company financial statement in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable, relevant and reliable
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements.
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006 (the 2006 Act). They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic report, Directors' report, Directors' Remuneration Report and Corporate Governance Statement that comply with such law and regulation.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual financial report
We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole
- the Strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

Critical accounting estimates, key judgements and significant accounting policies
Our critical accounting estimates, key judgements and significant accounting policies conform with IFRSs, as adopted by the EU and IFRSs issued by the International Accounting Standards Board (IASB), and are set out on pages 132 and 133 of the consolidated **financial statements**. The directors have reviewed these policies and applicable estimation techniques, and have confirmed they are appropriate for the preparation of the 2019/20 consolidated financial statements.

Disclosure of information to auditors
As far as each of the directors is aware, there is no relevant audit information (as defined by section 418(3) of the 2006 Act) that hasn't been disclosed to the auditors. Each of the directors believes that all steps have been taken that ought to have been taken to make them aware of any relevant audit information and to establish that the auditors have been made aware of that information.

Going concern
In line with IAS 1 'Presentation of financial statements', and revised FRC guidance on 'risk management, internal control and related financial and business reporting', management has taken into account all available information about the future for a period of at least, but not limited to, 12 months from the date of approval of the financial statements when assessing the group's ability to continue as a going concern.

The **Strategic report** on pages 1 to 64 includes information on the group structure, strategy and business model, the performance of each customer-facing unit and the impact of regulation and competition. The **Group performance** section on pages 43 to 50 includes information on our group financial results, financial outlook, cash flow and net debt, and balance sheet position. Notes 24, 25, 26 and 28 of the consolidated financial statements include information on the group's investments, cash and cash equivalents, borrowings, derivatives, financial risk management objectives, hedging policies and exposure to interest, foreign exchange, credit, liquidity and market risks.

Our principal risks and uncertainties are set out on pages 52 to 63 including details of each risk and how we manage and mitigate them. The directors carried out a robust assessment of the principal risks affecting the group, including any that could threaten our business model, future performance, insolvency or liquidity.

This assessment is consistent with the assessment of our viability, as set out on page 64, in estimating the financial impact for a severe but plausible outcome for each risk, including a highly severe Covid-19 scenario based on very prolonged lockdowns, both individually, in combination and through probabilistic risk modelling. This stress testing confirmed that existing projected cash flows and cash management activities provide us with adequate headroom over the going concern assessment period.

Having assessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting when preparing the financial statements. This assessment covers the period to May 2021, which is consistent with the FRC guidance.

Independent advice

The Board has a procedure that allows directors to seek independent professional advice at BT's expense.

All directors also have access to the advice and services of the company secretary.

Directors' and officers' liability insurance and indemnity

For some years, BT has bought insurance cover for directors, officers and employees in positions of managerial supervision of BT Group plc and its subsidiaries. This is intended to protect against defence costs, civil damages and, in some circumstances, civil fines and penalties following an action brought against them in their personal capacity. The policy also covers individuals serving as directors of other companies or of joint ventures, or on boards of trade associations or charitable organisations at BT's request. The insurance protects the directors and officers directly in circumstances where, by law, BT cannot provide an indemnity. It also provides BT, subject to a retention, with cover against the cost of indemnifying a director or officer. One layer of insurance is ringfenced for the main Board directors of the company.

As at 6 May 2020, and throughout 2019/20, the company's wholly-owned subsidiary, British Telecommunications plc, has provided an indemnity for a group of people similar to the group covered by the above insurance. Neither the insurance nor the indemnity provides cover where the individual is proven to have acted fraudulently or dishonestly.

Interest of management in certain transactions

During and at the end of 2019/20, none of BT's directors were materially interested in any material transaction in relation to the group's business. None are materially interested in any currently proposed material transactions.

Power to authorise conflicts

All directors have a duty under the 2006 Act to avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company. The company's Articles of Association include provisions for dealing with directors' conflicts of interest in accordance with the 2006 Act. The company has procedures in place, which it follows, to deal with such situations. These require the Board to:

- consider each conflict situation separately on its particular facts
- consider the conflict situation in conjunction with its other duties under the 2006 Act
- keep records and Board minutes on any authorisations granted by directors and the scope of any approvals given
- regularly review conflict authorisation.

The company secretary maintains a conflicts register.

The *Conflicted Matters Committee* identifies to what extent Board and committee materials are likely to refer to a potential or actual conflict of interest between BT and Deutsche Telekom and as a result what materials should be shared with our non-independent, non-executive director. He owes duties to both BT and Deutsche Telekom, and the *Conflicted Matters Committee* helps him comply with his fiduciary duties, although ultimate responsibility rests with him.

General information

US regulation

US Sarbanes-Oxley Act of 2002
BT has securities registered with the SEC. As a result, we must comply with those provisions of the Sarbanes-Oxley Act which apply to foreign issuers. We comply with the legal and regulatory requirements introduced under the Sarbanes-Oxley Act, in so far as they apply.

The *Audit & Risk Committee* includes Nick Rose, Allison Kirkby and Matthew Key who, in the opinion of the Board, are the designated financial experts and are independent (as defined for this purpose). The Board considers that the committee's members have broad commercial knowledge and extensive business leadership experience, having held between them various prior roles in major business, financial management, and financial function supervision and that this constitutes a broad and suitable mix of business and financial experience on the committee.

The code of ethics we have adopted for the purposes of the Sarbanes-Oxley Act applies to the chief executive, chief financial officer and senior finance managers.

Controls and procedures

Management's report on internal control over financial reporting as of 31 March 2020
Management is responsible for establishing and maintaining adequate internal control over financial reporting for the group. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with IFRS as issued by the IASB and IFRS as adopted by the EU.

Because of its inherent limitations, there is a risk that material misstatements will not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk. Therefore, even those systems determined to be effective can provide only reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS as issued by the IASB and as adopted by the EU, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of our internal control over financial reporting as of 31 March 2020 based on the criteria established in "Internal Control – Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In 2018/19 management undertook a continuous improvement and enhancement programme in relation to its framework of internal control over financial reporting. This programme identified two areas requiring remediation, specifically, IT general controls and risk assessment, which were reported as material weaknesses in 2018/19. While management have made good progress in remediating these material weaknesses during 2019/20, the remediation activity had not fully been completed in the year. Therefore management has concluded that our internal control over financial reporting was not effective as of 31 March 2020 due to the material weaknesses in relation to IT general controls and risk assessment, described below.

These material weaknesses did not result in any identified material misstatements in the current period consolidated financial statements, nor in any restatements of consolidated financial statements previously reported by the company, and there are no changes to previously released financial results as a result of these matters; however it created a reasonable possibility that a material misstatement would not have been prevented or detected on a timely basis as at or during the year ended 31 March 2020.

Material weaknesses in IT general controls and risk assessment

IT general controls

We did not design and maintain effective controls over certain information systems that are relevant to the preparation of our consolidated financial statements, principally including the following deficiencies:

- During the year 2019/20, including as part of our activities to remediate previously disclosed control deficiencies, management identified additional IT applications which were brought into the scope of management's framework of internal control over financial reporting. These additional IT applications were not identified for inclusion in the scope of management's framework of internal control over financial reporting by our risk assessment procedures with sufficient time to allow the IT general controls related to these additional applications to operate effectively by 31 March 2020
- Management also identified instances of privileged access revalidation for applications, operating systems and databases for which relevant controls were not operated effectively during 2019/20.

Risk assessment

In the prior and current year management identified aspects of our risk assessment processes requiring remediation. Specifically:

- During the year 2019/20, management have addressed the key control gaps identified in the year 2018/19 that contributed to the material weakness reported in 2018/19 relating to certain outsourced service organisations, including pension asset valuation services and a significant IT outsourced provider. However management have identified additional outsourced service organisations related to new IT applications brought in to scope and one which changed provider in 2019/20 where there is a risk related to our ability to rely on the controls performed at the outsourced service organisations due to the timing of attestation reports from these service organisations and lack of sufficient compensating controls

- Whilst substantial documentation and testing has been completed over 'Information Produced by the Entity' (being information presented in reports used in the operation of a control), exceptions were noted during both the remediation programme and through management testing that indicated that certain instances were not yet subject to sufficient testing or controls to ensure that such information was complete and accurate
- In a number of areas, most significantly specific revenue streams, and our overseas Global operations, management have not yet completed our identification and mapping of all transactional process risk points to their related controls including management review controls.

Although good progress has been made in narrowing the material weaknesses and these control deficiencies did not result in any material misstatements in the current period consolidated financial statements, nor in any restatements of consolidated financial statements previously reported by the company, and there are no changes to previously released financial results as a consequence of these matters, they created a reasonable possibility that a material misstatement would not have been prevented or detected on a timely basis during the year ended 31 March 2020. While remediation activities related to the above issues continued during the year ended 31 March 2020, management concluded that these material weaknesses were not remediated as of 31 March 2020.

Audit of the effectiveness of internal control over financial reporting

Our independent registered public accounting firm, KPMG LLP, who audited the consolidated financial statements included in this Annual Report, has expressed an adverse opinion on our internal control over financial reporting, as stated in their report as of 31 March 2020, which is included elsewhere in the Form 20-F.

Changes in internal control over financial reporting

Changes in our internal control over financial reporting that occurred during the year ended 31 March 2020, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting are described in "Progress in remediating material weaknesses reported in 2018/2019" and "Ongoing remediation of the material weaknesses in IT general controls and risk assessment" below.

Disclosure controls and procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934 (Exchange Act), and the rules and regulations thereunder, is recorded, processed, summarised and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our chief executive and chief financial officer to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognises that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgement and makes assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

We have evaluated the effectiveness of our disclosure controls and procedures. Based upon that evaluation, our chief executive and chief financial officer concluded that, as a result of the material weaknesses in relation to IT general controls and risk assessment described above, as of 31 March 2020, our disclosure controls and procedures were not effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or furnish under the Exchange Act is recorded, processed, summarised and reported, within the time periods specified in the applicable rules and forms.

Progress in remediating material weaknesses reported in 2018/19

Management has made good progress in remediating the areas of material weakness identified in 2018/19. Specifically, action was taken to address control deficiencies that contributed to material weaknesses in the areas of:

IT general controls:

- During 2018/19, IT applications were brought into the scope of management's framework of internal control over financial reporting; however these additional IT applications were not identified for inclusion with sufficient time to allow the IT general controls supporting these additional applications to operate in accordance with COSO 2013. During 2019/20 management enhanced the IT general controls supporting these additional applications brought into the scope in 2018/19. However, remediation is an ongoing process that we have not yet completed and our work in this area continues
- Within EE, management ensured SAP privileged user access related to development activity was no longer granted thereby removing the risk that logs of activity free from potential manipulation by these users were not retained and changes implemented by privileged users were not directly monitored
- Management introduced a process to ensure changes to IT dependent business process controls now receive an appropriate level of approval testing
- Management also made improvements to the strength of passwords in legacy systems and the timely removal of application access for leavers.

Risk assessment:

- Management has appropriately addressed the risks of material misstatement associated with key outsourced service organisations identified in 2018/19, including pension asset valuation services and a significant IT outsourced provider. However, remediation is an ongoing process that we have not yet completed and our work in this area continues including related to new IT applications brought into scope and one which changed provider in 2019/20
- Management has implemented a remediation programme to support the design and operation of effective controls over the completeness and accuracy of information produced by the entity; however this has not fully completed
- Management has not yet completed the identification and mapping of transactional process risk points to their related controls including management review controls, most significantly specific revenue streams, and our overseas Global operations.

Ongoing remediation of the material weaknesses in IT general controls and risk assessment

Management has been implementing, and continues to implement, measures designed to ensure that control deficiencies contributing to the remaining material weaknesses in the areas of IT general controls and risk assessment are remediated, and that these controls are designed, implemented, and operating effectively. Remaining procedures to remediate these deficiencies are:

IT general controls:

- Implementing processes to identify all, and monitor for required changes to, relevant IT general controls and enhancing the IT general controls supporting additional applications brought into the scope in 2019/20 with sufficient time to allow the IT general controls supporting these additional applications to operate effectively
- Enhancing the design and operational effectiveness in relation to privileged access revalidation controls.

General information continued

Risk assessment:

- Implementing processes to identify all, and monitor for required changes to, service organisations and designing and implementing alternative business process compensating controls for IT applications dependant on third-party service organisation assurance reports where reports are not received on a timely basis for our financial year-end
- Continuation of our remediation programme to support the design and operation of effective controls over the completeness and accuracy of information produced by the entity and identification and mapping the remaining transactional process risk points to relevant controls.

UK internal control and risk management

The Board is responsible for the group's systems of internal control, risk management and assurance and for reviewing the effectiveness of those systems each year. These systems are designed to manage, rather than eliminate, risks we face that may prevent us achieving our business objectives; any system can provide only reasonable, and not absolute, assurance against material misstatement or loss.

For details of our assessment of our internal controls for the purposes of the Sarbanes-Oxley Act, see **US Regulation** on page 112. The Board also takes account of significant social, environmental and ethical matters that relate to BT's businesses. We describe our workplace practices, specific environmental, social and ethical risks and opportunities, and details of underlying governance processes on pages 1 to 64 in the **Strategic report**.

We have enterprise-wide risk management processes for identifying, evaluating and managing the principal risks faced by the group. These processes have been in place throughout the year and have continued up to the date on which this document was approved. The processes are in accordance with the FRC guidance on risk management, internal control and related financial and business reporting.

Risk assessment and evaluation are an integral part of BT's annual strategic review cycle. We have a detailed risk management process which identifies the key risks facing the group, our customer-facing units and Technology.

The key features of our enterprise-wide risk management and internal control process (covering strategic, financial, operational and compliance controls) are as follows:

- senior executives collectively review the group's key risks, and have created a group risk register describing the risks, their owners and associated mitigation strategies. The Group Risk Panel and the *Executive Committee* reviews this before it's reviewed and approved by the Board
- our customer-facing units and Technology carry out risk assessments of their operations, create risk registers relating to those operations and ensure that the key risks are addressed
- senior executives with responsibility for major group operations report quarterly on their opinion on the effectiveness of the operation of internal controls in their areas of responsibility
- the group's internal auditors carry out ongoing assessments of the quality of risk management and control, report to management and the *Audit & Risk Committee* on the status of specific areas identified for improvement, and promote effective risk management in customer-facing units and Technology
- the *Audit & Risk Committee*, on behalf of the Board, considers the effectiveness of the group's internal control procedures during the financial year. It reviews reports from the internal and external auditors, and reports its conclusions to the Board. The *Audit & Risk Committee* has carried out these actions for 2019/20
- the *Audit & Risk Committee*, on behalf of the Board, reviews the effectiveness of risk management arrangements across the group.

We have not included joint ventures and associates, which BT does not control, as part of the group risk management process. Third parties we enter into joint ventures with are responsible for their own internal control assessment.

We have set out our significant accounting policies on pages 132 and 133. The consistent application of these policies is subject to ongoing verification through management review and independent review by the internal and external auditors.

The processes supporting the preparation and consolidation of the financial statements have been documented and are subject to annual verification through the programme of testing completed by our internal auditors. This serves to confirm the operation of internal controls over financial reporting, as well as compliance with the Sarbanes-Oxley Act. The *Audit & Risk Committee* reviews BT's published financial results, related disclosures and accounting judgements. The committee's activities for 2019/20 are set out on pages 78 to 81.

Capital management and funding policy

The objective of our capital management policy is to target an overall level of debt consistent with our credit rating objectives, while investing in the business, supporting the pension fund and meeting our distribution policy.

The Board reviews the group's capital structure regularly. Management proposes actions which reflect the group's investment plans and risk characteristics, as well as the macro-economic conditions in which we operate.

Our funding policy is to raise and invest funds centrally to meet the group's anticipated requirements. We use a combination of capital market bond issuance, commercial paper borrowing and committed borrowing facilities to fund the group. When issuing debt, in order to avoid refinancing risk, group treasury will take into consideration the maturity profile of the group's debt portfolio as well as forecast cash flows.

See note 28 to the consolidated **financial statements** for details of our treasury policy.

Financial instruments

Details of the group's financial risk management objectives, policies of the group and exposure to interest risk, credit risk, liquidity risk and foreign exchange are given in note 28 to the consolidated **financial statements**.

Credit risk management policy

We take proactive steps to minimise the impact of adverse market conditions on our financial instruments. In managing investments and derivative financial instruments, the group's central treasury function monitors the credit quality across treasury counterparties and actively manages any exposures that arise. Management within the business units also actively monitors any exposures arising from trading balances.

Off-balance sheet arrangements

Other than the financial commitments and contingent liabilities disclosed in note 31 to the consolidated **financial statements**, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on:

- our financial condition
- changes in financial condition
- revenues or expenses
- results of operations
- liquidity
- capital expenditure
- capital resources.

Legal proceedings

The group is involved in various legal proceedings, including actual or threatened litigation and government or regulatory investigations. For further details of legal and regulatory proceedings to which the group is party please see note 31 to the consolidated **financial statements** on pages 191 and 192.

Apart from the information disclosed in note 31 to the consolidated **financial statements**, the group does not currently believe that there are any legal proceedings, government or regulatory investigations that may have a material adverse impact on the operations or financial condition of the group. In respect of each of the claims described in note 31, the nature and progression of such proceedings and investigations can make it difficult to predict the impact they will have on the group. Many factors prevent us from making these assessments with certainty, including that the proceedings or investigations are in early stages, no damages or remedies have been specified, and/or the frequently slow pace of litigation.

Other information - Listing Rules (LR)

For the purposes of LR 9.8.4R, no information is required to be disclosed other than in respect of shareholder waiver of dividends and future dividends (LR 9.8.4R(12) and (13)) as follows. The Trustee of the BT Group Employee Share Ownership Trust agrees to waive dividends payable on the BT shares it holds for satisfying awards under various BT executive share plans. Under the rules of these share plans, the dividends are reinvested in BT shares that are added to the relevant share awards.

Other statutory information – the 2006 Act

Certain provisions of the 2006 Act require us to make additional disclosures. These are described on the pages listed below:

Section information	Page
Structure of BT's share capital (including the rights and obligations attaching to the shares)	127, 115 and 116
Restrictions on the transfer of BT shares and voting rights	115 and 116
Significant direct or indirect shareholdings	116
Appointment and replacement of directors	75, 107 and 115
Significant agreements to which BT Group plc is a party that take effect, alter or terminate upon a change of control following a takeover	n/a
Branches	197 to 203

The following disclosures are not covered elsewhere in this Annual Report:

- BT has two employee share ownership trusts that hold BT shares for satisfying awards under our various employee share plans. The Trustee of the BT Group Employee Share Investment Plan may invite participants, on whose behalf it holds shares, to direct it how to vote in respect of those shares. If there is an offer for the shares or other transaction that would lead to a change of control of BT, participants may direct the Trustee to accept the offer or agree to the transaction. In respect of shares held in the BT Group Employee Share Ownership Trust, the Trustee abstains from voting those shares
- if there is an offer for the shares, the Trustee does not have to accept or reject the offer but will have regard to the interests of the participants, may consult them to obtain their views on the offer, and may otherwise take any action with respect to the offer it thinks fair
- no person holds securities carrying special rights with regard to control of the company
- the registrars must receive proxy appointment and voting instructions not less than 48 hours before a general meeting (see also page 116)
- any amendment of BT's Articles of Association requires shareholder approval in accordance with applicable legislation
- the powers of BT's directors are determined by UK legislation and BT's Articles of Association. The directors are authorised to issue and allot shares, and to undertake purchases of BT shares subject to shareholder approval at the AGM
- we have no agreements with directors providing for compensation for loss of office or employment as a result of a takeover. Similarly, there is no provision for this in our standard employee contracts
- we are not aware of any agreements between shareholders that may result in restrictions on the transfer of shares or on voting rights.

Articles of Association

The company's current Articles of Association were adopted pursuant to a resolution passed at the AGM of the company held on 15 July 2015 and contain, amongst others, provisions on the rights and obligations attaching to the company's shares. The Articles of Association may only be amended by special resolution at a general meeting of the shareholders.

Directors' appointment and retirement

The company's Articles of Association regulate the appointment and removal of directors, as does the 2006 Act and related legislation. The Board and shareholders (by ordinary resolution) may appoint a person who is willing to be elected as a director, either to fill a vacancy or as an additional director. At every annual general meeting, all directors must automatically retire. A retiring director is eligible for election or re-election. In addition to any power of removal under the 2006 Act, the shareholders can pass an ordinary resolution to remove a director.

Share rights

(a) Voting rights

On a show of hands, every shareholder present in person or by proxy at any general meeting has one vote and, on a poll, every shareholder present in person or by proxy has one vote for each share which they hold.

There are no restrictions on exercising voting rights except in situations where the company is legally entitled to impose such a restriction (for example where a notice under section 793 of the 2006 Act has been served).

(b) Variation of rights

Whenever the share capital of the company is split into different classes of shares, the special rights attached to any of those classes can be varied or withdrawn either: (i) with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class; or (ii) with the consent in writing of the holders of at least 75% in nominal value of the issued shares of that class. The company can issue new shares and attach any rights and restrictions to them, as long as this is not restricted by special rights previously given to holders of any existing shares. Subject to this, the rights of new shares can take priority over the rights of existing shares, or existing shares can take priority over them, or the new shares and the existing shares can rank equally.

General information continued

Transfer of shares
There are no specific restrictions on the transfer of shares in the company, which is governed by the Articles of Association and prevailing legislation.

Political donations
Our policy is that no company in the group will make contributions in cash or in kind to any political party, whether by gift or loan. However, the definition of political donations used in the 2006 Act is very much broader than the sense in which these words are ordinarily used. For example, it could cover making members of Parliament and others in the political world aware of key industry issues and matters affecting the company, enhancing their understanding of BT.

The authority for political donations requested at the AGM is not intended to change this policy. It will, however, ensure that the group continues to act within the provisions of the 2006 Act requiring companies to obtain shareholder authority before they make donations to EU political parties and/or political organisations as defined in the 2006 Act. During 2019/20, the company's wholly owned subsidiary, British Telecommunications plc, paid the costs of attending corporate days at (i) the Liberal Democrats party conference; (ii) the Labour party conference; (iii) the Scottish National party conference; and (iv) the Conservative party conference. These costs totalled £9,967 (2018/19: £4,616). No company in the BT Group made any loans to any political party.

Substantial shareholdings
At 6 May 2020, BT had received notice, under the Financial Conduct Authority's Disclosure Guidance & Transparency Rules, in respect of the following holdings of shares:

	Date of notification	Shares	% of total voting rights
BlackRock, Inc.	27 January 2020	512,002,221	5.18%

In addition, T-Mobile Holdings holds 1,196,175,322 shares representing 12% of total voting rights.

AGM
Resolutions
At our AGM, we give our shareholders the opportunity to vote on every important issue by proposing a separate resolution for each.

Before the AGM, we count the proxy votes for and against each resolution, as well as votes withheld, and make the results available at the meeting. As at previous AGMs, we will take votes on all matters at the 2020 AGM on a poll, except procedural issues.

The separate Notice of meeting 2020, which we send to all shareholders who have requested shareholder documents by post, contains the resolutions (with explanatory notes) which we will propose at the 2020 AGM on 16 July in London. We notify all shareholders of the publication of these documents which are available on our website at **bt.com/annualreport**

At the AGM we will propose resolutions to re-appoint KPMG LLP as BT's auditors and to authorise the *Audit & Risk Committee* to agree their remuneration. We will also ask shareholders to vote on the Annual Report, the Report on directors' remuneration, the directors' remuneration policy, allotment of shares in the company, the disapplication of pre-emption rights, our all-employee and executive share plan rules and new Articles of Association.

Authority to purchase shares
The authority given at last year's AGM for BT to purchase in the market 992 million of its shares, representing 10% of the issued share capital (excluding treasury shares), expires on 16 July 2020. We will ask shareholders to give a similar authority at the 2020 AGM.

During 2019/20, we purchased 40m shares of 5p under this authority (0.40% of the share capital) for a consideration of £80m, at an average price of £1.96 per share. During 2019/20, we transferred 131,073 treasury shares to meet BT's obligations under our employee share plans. At 4 May 2020, we held a total of 85.9m shares as treasury shares.

In addition, the BT Group Employee Share Ownership Trust (the Trust) purchased 237,000 BT shares for a total consideration of £314,307. The Trust continued to hold 6.9m shares at 4 May 2020. In connection with the termination of our ADR programme during the year, JPMorgan Chase Bank, N.A., the ADR Depositary, transferred 3.7m ordinary shares that were designated for use in our share plans in the United States into the Trust.

Cross-reference to the Strategic report
In line with the 2006 Act, we have chosen to include the following information in the **Strategic report** (required by law to be included in the **Report of the Directors**):

- Dividend decisions made by the Board (page 44)
- An indication of likely future developments in the business of the company (pages 1 to 64)
- An indication of our R&D activities (pages 15 and 21)
- Information about our people (pages 25 and 30 to 33)
- Information about greenhouse gas emissions (pages 39).

By order of the Board

Rachel Canham
Company Secretary & General Counsel, Governance
6 May 2020