REPORT ON DIRECTORS' REMUNERATION

Overview

- The *Remuneration Committee* endorsed the Chief Executive's proposal that directors and senior executives should receive no salary increase in 2009/10, in line with the pay freeze for all employees.
- In view of our executive team's strong performance, the Committee decided to increase salaries to directors and senior executives from June 2010. Executive directors' salaries are set to be below the median level for directors of comparable companies. The salary increases proposed for 2010/11 are in line with that principle.
- The demanding conditions set for the 2009/10 annual bonus were largely met. In particular, BT exceeded the targets for free cash flow and earnings per share (EPS). The Chief Executive was therefore awarded a bonus of 142% of target; 71% of his maximum bonus opportunity.
- In 2008, shareholders supported a two-stage change in executive remuneration, designed to simplify the structure and bring total remuneration closer to our comparators. As we reported last year, however, the second stage was postponed in view of the company's disappointing performance. The second stage will now be implemented in 2010/11, but with lower maximum long-term incentive opportunities than originally proposed, and lower than awards granted in previous years.
- Following consultation with major shareholders, we strengthened the performance measures for our long-term Incentive Share Plan. For awards granted from 2009/10, half of each award is linked to total shareholder return and half to a new three-year cumulative free cash flow measure.
- The Committee introduced a clawback mechanism into all executive share plans, making BT one of the first companies to take such action.
- Having considered the impact of personal income tax changes from April 2010, the Committee endorsed the Chief Executive's recommendation that no changes be made in order to either avoid or to compensate for the higher top tax rate.
- Hanif Lalani, Chief Executive of BT Global Services and formerly Group Finance Director, resigned as a director on 7 January 2010. Details of his leaving arrangements are disclosed in this report.

Introduction

This report sets out the details of the remuneration policy for the company's directors and senior executives and the amounts paid to the directors in 2009/10. As well as meeting statutory requirements, the Committee aims to comply with best practice guidelines in producing this report. Relevant sections of this report have been audited in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

This report covers the following:

- **Remuneration policy (not subject to audit)**
  - (i) Role of the Remuneration Committee
  - (ii) Remuneration principles
  - (iii) Remuneration in 2009/10 and 2010/11
  - (iv) Other matters
    - Executive share ownership
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  - Deferred Bonus Plan awards
  - Share awards under the Employee Share Investment Plan

Shareholders will be asked to vote on this Report at the 2010 AGM.

Remuneration policy

This part of the Report on directors' remuneration is not subject to audit.

(i) Role of the Remuneration Committee

The *Remuneration Committee* is a formal committee of the Board and has powers delegated to it under the Articles of Association. Its remit is set out in the terms of reference formally adopted by the Board, which were last reviewed in December 2009.

The terms of reference of the Committee are available on the company's website at **www.bt.com/committees**

The *Remuneration Committee* agrees the framework for the remuneration of the Chairman, the executive directors and certain senior executives. This includes the policy for all cash remuneration, executive share plans, service contracts and termination arrangements. The Committee approves salaries, bonuses and share awards for executive directors and senior executives. The Committee approves changes to the executive share plans and recommends to the Board any changes which require shareholder approval. The Committee also determines the basis on which awards are granted under the executive share plans to executives reporting to the senior management team.

The Board has reviewed compliance with the Combined Code on reward-related matters, and confirms that the company has complied with all aspects. The Chairman, Sir Michael Rake, is a member of the Committee, in accordance with the provision of the Combined Code permitting a company chairman to be a member of, but not chair, the remuneration committee.

The Committee met five times during 2009/10. In addition to the Chairman, the members of the Committee are all independent non-executive directors. Maarten van den Bergh, who had been chairman of the Committee since October 2006, stood down at the AGM in July 2009 and was succeeded by Patricia Hewitt, the Senior Independent Director. The other members who served during 2009/10 were:

- Matti Alahuhta (retired 31 May 2009)
- Eric Daniels
- Deborah Lathen (retired 31 January 2010)
- Carl Symon

In addition, the Chief Executive is invited to attend meetings, except when it would be inappropriate for him to be there, for example, when his own remuneration is discussed. Non-executive directors who are not members of the Committee are entitled to receive the papers discussed at meetings and the minutes.

The Committee has received advice during the year from independent remuneration consultants, Kepler Associates, who were appointed by the company. Kepler advised both the Committee and the company and attended Committee meetings when major remuneration issues were discussed. They provided no other services to the company. In March 2010 Kepler Associates were replaced by Towers Watson, who were appointed by the Committee. Towers Watson also provide the company with consultancy services on general HR and pensions issues. The Committee also regularly consults the Chief Executive, the Group Finance Director, the Group HR Director, the Director Reward and Employee Relations, and the Company Secretary.

The chair of the Committee met several major shareholders, the Association of British Insurers and Pensions Investment Research Consultants Limited (PIRC) to discuss remuneration issues, including the recommendations of Sir David Walker's review and the Financial Reporting Council's review of the Combined Code.

The Committee reviewed its own performance and has taken steps to improve its effectiveness further, for instance by holding a private session for members and the independent remuneration consultants advising the Committee before each meeting.

(ii) Remuneration principles

During 2009/10, the Committee reviewed the principles upon which we base senior executive pay. Our goal remains to maintain a competitive remuneration package that will attract, retain and motivate a high quality top team and align their interests with those of shareholders.

We believe in pay for performance. We aim to set base salaries below the median for our comparator group, while setting stretching goals for the annual bonus (including deferred shares) and the long-term incentive share plan. It is only in return for sustained and excellent performance that the remuneration package as a whole will deliver upper quartile rewards.
A significant proportion of the total remuneration package is therefore variable and linked to corporate performance. The Committee reviews the performance targets regularly to ensure that they are both challenging and closely linked to the group's annual and strategic priorities. Furthermore, because a large part of the remuneration package is delivered in shares and senior executives are required to build up a significant shareholding themselves, they are directly exposed to the same gains or losses as all other shareholders.

In setting directors' remuneration, the Committee also takes into account the pay and employment conditions of all our employees. For instance, following the general pay freeze (including the senior team) in 2009/10, the overall increase in senior managers' pay for 2010/11 is comparable with the cost of the pay settlement offered to our employees generally, with some senior managers receiving no increase. Although the pay rise for the Chief Executive is higher (reflecting his performance and commitments made upon his appointment), the Committee welcomed Ian Livingston's decision to donate any salary increase above the average percentage salary award made to employees to the BT Benevolent Fund and other charities.

The Committee has considered carefully the relationship of risk to remuneration. The largest single driver of on-target remuneration is cash flow (28% of the Chief Executive's remuneration), reflecting the importance of cash flow to invest in the business, support the pension fund, reduce net debt and pay progressive dividends. The other performance drivers are EPS, total shareholder return and customer service. The Committee is satisfied that this spread of measurement criteria does not drive inappropriate and risky behaviour and that they are aligned to shareholders' interests.

The Committee is also satisfied that the incentive structure for senior executives does not raise environmental, social or governance risks by inadvertently motivating irresponsible behaviour. Part of the annual bonus depends upon an individual assessment of each senior executive's personal contribution to environmental, social and governance measures, including results of the regular employee surveys.

Annual bonuses are not pensionable.

The Committee will be conducting a further review of the executive pay structure in 2010/11, to ensure that we continue to strengthen the alignment of executive interests with those of shareholders, simplifying the system where possible. We will consult major shareholders and representative bodies during the review, while any proposed changes will be the subject of a shareholder vote on the 2011 Directors' remuneration report.

(iii) Remuneration in 2009/10 and 2010/11

Remuneration structure

	2008/09	2009/10	2010/11
Base salary	increases to align with the market	no increases	increases to align with the market
Annual bonus			
Chief Executive	target 100% salary maximum 200% salary	target 100% salary maximum 200% salary	target 125% salary maximum 200% salary
Executive directors	target 80% salary maximum 120% salary	target 80% salary maximum 120% salary	target 100% salary maximum 150% salary
Deferred bonus (in shares)			
Chief Executive	1x cash bonus	1x cash bonus	1x cash bonus
Executive directors	75% of cash bonus	75% of cash bonus	75% of cash bonus
Incentive shares			
Chief Executive	3x salary	3x salary	2.5x salary[a]
Executive directors	2.5x salary	2.5x salary	2x salary[a]
Retention shares	none	none	none
Share options	none	none	none

[a] Although shareholders agreed a maximum award of incentive shares of 3x salary for the Chief Executive (2.5x for executive directors) , the *Remuneration Committee* approved a proposal from the Chairman and Chief Executive to reduce this to 2.5x salary for the Chief Executive (2x salary for executive directors), in view of the wider economic conditions and the base salary increases.

Remuneration in 2009/10

Salaries

Salaries are reviewed annually but increases are made only where the Committee believes the adjustments are appropriate to reflect the contribution of the individual, increased responsibilities and market conditions. In 2009/10 salaries of the executive directors were not increased.

Annual bonus

The annual bonus is linked to corporate performance targets set at the beginning of the financial year. For 2009/10, the weighting of the bonus targets were set as follows:

	% of total bonus opportunity
Earnings per share (EPS)	30%
Free cash flow	30%
Customer service	25%
Environmental, social and governance objectives	15%

The scores for corporate performance targets for 2009/10 were as follows:

Measure (weighting)	Threshold	Target	Stretch	Actual
Financial measures (60%)				
EPS (30%)	15%	30%	60%	43%
Free cash flow (30%)	15%	30%	60%	60%
Customer service (25%)	12.5%	25%	50%	18%
Sub-total				121%
Environment, social and governance (15%)	7.5%	15%	30%	[a]

[a] Performance is assessed on an individual basis.

The two financial targets (which together represent 60% of the bonus) have a direct impact on shareholder value, while customer service and broader objectives are vital to the company's long-term health and growth. We do not publish details of the EPS and cash flow targets, since these are market sensitive and commercially confidential. The Committee is, however, satisfied that the measures are appropriate and that the targets are properly stretching.

In calculating EPS for purposes of the annual bonus, volatile items which would be reported under IFRS are excluded. The impact of market movements in foreign exchange and financial instruments, plus the net finance expense or income relating to the group's pension liabilities, were excluded from the target.

Customer service is measured by rigorous and challenging 'right first time' metrics across each line of business. Although we will keep this measure under review, 'right first time' is directly linked to cost reductions as well as to customer satisfaction and is measured objectively.

The environmental, social and governance measure is assessed by the Chief Executive for each senior executive, and by the Chairman for the Chief Executive himself. Assessment is based upon BT's regular employee survey as well as health and safety and sustainability measures.

Annual bonuses are paid in cash. Details of the bonuses for Ian Livingston, Tony Chanmugam, Gavin Patterson and Hanif Lalani are set out in the table on page 73.

Deferred Bonus Plan

In addition to the annual cash bonus, directors receive an award of shares under the Deferred Bonus Plan (DBP). For the Chief Executive, the award has a value of 100% of his cash bonus and for the other executive directors, the value of the awards is 75% of their cash bonus.

The shares vest and are transferred to the executive after three years if they remain employed by the company. There are currently no additional performance measures for the vesting of DBP awards. The Committee considers that awarding shares on a deferred basis acts as a retention measure and contributes to the alignment of management with the long-term interests of the shareholders.

The DBP awards for previous years for Ian Livingston, Tony Chanmugam, Gavin Patterson and Hanif Lalani at the end of 2009/10 are contained in the table on page 77.

Remuneration in 2010/11

In early 2010, the *Remuneration Committee* reviewed the senior executive remuneration package, taking into account the challenges to the business, the significant improvement in performance and the need to incentivise and, if appropriate, reward management for success. In particular, we considered whether to implement the second stage of the two-stage change in remuneration agreed by shareholders in 2008 but not implemented in 2009 because of the company's unacceptable performance. We also took into account the views of institutional shareholders and representative bodies. The Committee agreed that the on-target and maximum levels for the annual bonus should be increased as originally agreed, but that the maximum opportunities for awards granted under the long-term Incentive Share Plan should be reduced as a multiple of salary.

Base salaries have also been reviewed and, where appropriate, increased to bring them more closely towards, but still typically below or around, mid-market levels in comparable companies. In making these decisions, the Committee took account of the position of all BT's employees who will benefit from pay increases and annual bonuses based on the company's performance in 2010/11.

No retention awards or share options will be granted.

Details of the remuneration structure are set out in the table on page 67.

Annual bonus

The Committee considered carefully the structure of the corporate scorecard for 2010/11. We have retained the EPS and free cash flow measures at 30% each, reflecting their importance as measures of corporate performance. In order to ensure that senior executives are also focused on the need for sustained profitable growth, we have added a new measure – worth 10% – of individual performance against personal objectives based on the company's strategic priorities. Customer service measures will be 20% and the environmental, social and governance objectives 10% of the weighting.

The Committee believes that the group performance targets for the financial year 2010/11 are very challenging.

Proportion of fixed and variable remuneration

The composition of each executive director's performance-related remuneration, excluding pension, is as follows:

	Fixed base pay	Variable cash	Variable shares	Total
Ian Livingston				
2010/11 target composition[a]	22%	28%	50%	100%
2009/10 actual composition[b]	38%	53%	9%	100%
Tony Chanmugam				
2010/11 target composition[a]	28%	28%	44%	100%
2009/10 actual composition[b]	48%	46%	6%	100%
Gavin Patterson				
2010/11 target composition[a]	28%	28%	44%	100%
2009/10 actual composition[b]	46%	45%	9%	100%

[a] Target remuneration comprises current base salary, on-target annual bonus and the expected value of awards under the deferred bonus and incentive share plans, excluding retention shares.
[b] Actual remuneration comprises base salary, actual cash bonus and the value received from deferred shares and incentive shares (awards granted in 2006 and vested in 2009) during the financial year, excluding retention shares.

Long-term share-based incentives

Incentive shares

BT operates a long-term Incentive Share Plan (ISP), based on performance over three years. Shares only vest if the participant is still employed by BT and challenging performance measures have been met. In 2007/8 and 2008/9, the vesting of awards was entirely based on Total Shareholder Return (TSR) relative to a comparable group of companies; for 2009/10 and 2010/11, 50% of awards are based on relative TSR with the balance based on a three-year cumulative free cash flow measure. The use of a free cash flow measure for the long-term incentive plan as well as the annual bonus reflects the importance of cash generation.

TSR for these purposes was calculated by J.P.Morgan Cazenove. TSR links the reward given to directors with the performance of BT against other major companies. TSR is measured against a comparator group which contains European telecommunications companies and companies which are either similar in size or market capitalisation and/or have a similar business mix and spread to BT.

The TSR comparator group for 2010/11 is the same as last year (with the substitution of Cable & Wireless Worldwide for Cable & Wireless and TalkTalk for Carphone Warehouse) and comprises the following companies:

Accenture	France Telecom	Telecom Italia
AT & T	Hellenic Telecom	Telefónica
Belgacom	IBM	Telekom Austria
BSkyB	National Grid	Telenor
BT Group	Portugal Telecom	TeliaSonera
Cable & Wireless Worldwide	Royal KPN	Verizon
Cap Gemini	Swisscom	Virgin Media
Centrica	TalkTalk	Vodafone
Deutsche Telekom		

The TSR for a company is calculated by comparing the return index (RI) at the beginning of the performance period with the RI at the end of the period. The RI is the TSR value of a company measured on a daily basis, as tracked by independent analysts, Datastream. It uses the official closing prices for a company's shares, adjusted for all capital actions and dividends paid. The initial RI is determined by calculating the average RI value taken daily over the three months prior to the beginning of the performance period; and the end value is determined by calculating the average RI over the three months up to the end of the performance period. This mitigates the effects of share price volatility. A positive change between the initial and end values indicates growth in TSR.

At 31 March 2010, the TSR for the 2007/08 awards was at 14th position against the comparator group of 15 companies. As a result, none of the shares will vest and all of the share awards have lapsed.

TSR vesting schedule for ISP awards granted in 2009/10 and 2010/11

Relative TSR over 3 years	% of share award vesting
Below median	Nil
Median	12.5%
Between median and upper quartile	Between 12.5% and 50% on straight line basis
Upper quartile	50%

The remaining 50% of the ISP awards are based on a three-year cumulative free cash flow, set at a level considered by the Committee, and confirmed by its independent adviser, to be at least as challenging as the previous measure. For awards granted in 2009/10, performance is assessed against a range of cumulative cash flow measures. 25% of the relevant part of the award will vest for performance at the lower end of the range, increasing on a straight line basis, such that 100% of the relevant part of the award will vest for performance at the upper end of the range. At 31 March 2010, the performance for the awards granted in 2009/10 was at the upper end of the range.

The threshold level for vesting for the free cash flow measure for awards to be made in 2010/11 has been set above market expectations prevailing when the performance conditions were set; the range between threshold and maximum vesting is £1bn.

The details of ISP awards held by Ian Livingston, Tony Chanmugam, Gavin Patterson and Hanif Lalani at the end of the 2009/10 financial year are contained in the table on page 76.

Clawback

The rules of each of the executive share plans provide for a clawback of unvested awards in circumstances where it becomes apparent that there was a misjudgement of the basis on which the award was made.

In addition to the ISP, the BT Equity Incentive Portfolio includes the Retention Share Plan (RSP) and the Global Share Option Plan (GSOP).

Retention shares

RSP awards are used by exception only and principally as a recruitment or retention tool. As a result, shares currently under award are not generally linked to a corporate performance target. The length of the retention period before awards vest is flexible, although this would normally be three years unless the Committee agrees otherwise. The shares are transferred at the end of the specified period if the individual is still employed by BT and any performance conditions are met. No RSP awards were made to executive directors, but three awards were granted to other senior executives, in 2009/10.

Share options

No share options were awarded under the GSOP in 2009/10 and none have been awarded since 2004/05.

Details of options held by directors at the end of 2009/10 are contained in the table on page 75.

Other share plans

The Chairman and executive directors may participate in BT's all-employee share plans, the Employee Sharesave Scheme, Employee Share Investment Plan and Allshare International, on the same basis as other employees. Details of these plans are disclosed in note 30 to the consolidated financial statements.

Openreach

In the Undertakings given to Ofcom on 22 September 2005, BT agreed that the incentive elements of the remuneration of executives within Openreach should be linked to Openreach performance rather than BT targets or share price. These incentives cannot be provided by way of BT shares.

As a result, separate arrangements were put in place for Openreach executives in 2005/06. The annual bonus is linked solely to Openreach targets, and long-term incentives are paid in cash instead of shares. However, payment of bonuses in Openreach is subject to overall affordability within BT Group.

Openreach executives participate in the BT all-employee share plans on the same terms as other BT employees.

None of the executive directors participates in the Openreach incentive plans.

Dilution

Treasury shares are generally used to satisfy the exercise of share options, the grant of share awards and for the all-employee share plans. At the end of the 2009/10 financial year, treasury shares equivalent to 9% of the issued share capital would be required for these purposes. It is estimated that treasury shares equivalent to approximately 1% of the issued share capital will be required for all the employee share plans in 2010/11.

(iv) Other matters

Executive share ownership

The Committee believes that the interests of the executive directors should be closely aligned with those of shareholders. The DBP and ISP provide considerable alignment. The directors are encouraged to build up a shareholding in the company over time by retaining shares which they have received under an executive share plan (other than shares sold to meet a National Insurance or income tax liability) or from a purchase in the market. The Chief Executive is required to build up a shareholding of 2x salary and the remaining directors 1.5x salary. Progress towards meeting these targets has been made in 2009/10.

Current shareholdings are set out on page 72.

Pensions

The BT Pension Scheme (BTPS) closed to new entrants on 31 March 2001. None of the executive directors participates in future service accrual in the BTPS. Executive directors who are members of the BTPS also benefit from a death in service lump sum of four times salary.

All new employees are eligible to join the defined contribution BT Retirement Saving Scheme (BTRSS), the successor to the defined contribution BT Retirement Plan (BTRP). The BTRSS is a group personal pension plan. For executive directors the company agrees to pay a fixed percentage of the executive's salary each year which can be put towards the provision of retirement benefits. Executive directors who are not members of BTPS benefit from a death in service lump sum of four times salary and a dependant's pension of 30% of capped salary.

Pension provision for all executives is based on salary alone – bonuses, other elements of pay and long-term incentives are excluded.

Other benefits

Other benefits for the Chairman and the senior management team include some or all of the following: company car, fuel or driver, personal telecommunications facilities and home security, medical and dental cover for the director and immediate family, special life cover, professional subscriptions, and personal tax advice and financial counselling. The company has a permanent health insurance policy to provide cover for the Chairman and certain executive directors who may become permanently incapacitated.

Director who has left the Board

Hanif Lalani resigned as a director on 7 January 2010 and left BT on 31 March 2010. In accordance with the terms of his director's service contract, which was terminated on 11 January 2010, and, following the cessation of his employment, his salary of £585,000 per annum and the value of all of the benefits to which he was entitled, amounting to £195,000 per annum, continue to be provided until the earlier of nine months from 31 March 2010 or his obtaining full-time employment. A bonus for the year ended 31 March 2010 of £503,290 was also paid.

Hanif Lalani held awards over a total of 1,990,525 shares under the ISP all of which lapsed on the date of termination. At the discretion of the *Remuneration Committee*, his awards over a total of 282,744 shares under the Deferred Bonus Plan were pro-rated and 124,691 shares will vest in August 2010 and 105,374 shares will vest in August 2011. A total of 52,679 shares under the Deferred Bonus Plan lapsed. As such awards over a total of 2,043,204 shares (90%) under the executive share plans lapsed.

Hanif Lalani's options over a total of 195,889 shares at option prices of 192p and 199.5p under the GSOP were preserved, at the discretion of the *Remuneration Committee*, until 31 March 2011.

Service agreements

It is group policy for the Chairman and executive directors to have service agreements providing for one year's notice. It may be necessary on recruitment to offer longer initial periods to new directors from outside BT, or circumstances may make it appropriate to offer a longer fixed term. All of the service agreements contain provisions dealing with the removal of a director for poor performance, including in the event of early termination of the contract by BT. The contracts of the Chairman, Ian Livingston, Tony Chanmugam and Gavin Patterson entitle them on termination of their contract by BT to payment of salary and the value of benefits (pension benefits (including life cover), health cover, dental cover and car) until the earlier of 12 months from notice of termination or the director obtaining full-time employment. No director will receive a bonus or other payments on a change of control.

Outside appointments

The Committee believes that there are significant benefits, to both the company and the individual, from executive directors accepting non-executive directorships of companies outside BT. The Committee will consider up to two external appointments (of which only one may be to the Board of a major company), for which a director may retain the fees. Ian Livingston receives an annual fee of £25,000 as a non-executive director of Celtic and an additional annual fee of £5,000 for chairing the audit committee. Gavin Patterson was a non-executive director of Johnston Press from 7 July 2008 until 24 April 2009, for which he received a fee at the rate of £40,000 per annum. Tony Chanmugam was appointed as a non-executive director and chairman of the audit committee of Barnet and Chase Farm Hospital Trust on 1 April 2010, for which he receives a fee of £6,000 per annum and which is donated to charity.

Non-executive directors' letters of appointment

Non-executive directors have letters of appointment. They are appointed for an initial period of three years. During that period, either party can give the other at least three months' notice. At the end of the period, the appointment may be continued by mutual agreement. Further details of appointment arrangements for non-executive directors are set out in **Governance and role of the Board** on page 60. The letters of appointment of non-executive directors are terminable on notice by the company without compensation.

Non-executive directors' remuneration

Six of the directors on the Board are non-executive directors who, in accordance with BT's articles of association, cannot individually vote on their own remuneration. Non-executive remuneration is reviewed by the Chairman and the Chief Executive, and discussed and agreed by the Board. Non-executive directors may attend the Board discussion but may not participate in it.

The most recent review by the Board of the fees for the non-executive directors was in January 2008, having not previously been reviewed since 2004. Increases in the fees were made in order to align them with the market.

The basic fee for non-executive directors is £60,000 per annum. There are additional fees for membership and chairing a Board committee, details of which are given in the table below:

Committee	Member's fee	Additional Chairman's fee
Audit	£10,000	£15,000
Remuneration	£10,000	£10,000
Nominating	£5,000	£5,000
Other Board committees	£5,000	£5,000

Patricia Hewitt, as Senior Independent Director, chairman of the Remuneration Committee and chairman of the Pension Scheme Performance Review Group, receives total fees of £150,000 per annum. Carl Symon receives an additional annual fee of £70,000 as chairman of the Equality of Access Board (a Board committee), which was established on 1 November 2005.

An additional fee of £2,000 per trip is paid to those non-executive directors travelling regularly from overseas to Board and Board committee meetings on an inter-continental basis.

To align further the interests of the non-executive directors with those of shareholders, the company's policy is to encourage these directors to purchase, on a voluntary basis, £5,000 of BT shares each year. The directors are asked to hold these shares until they retire from the Board. This policy is not mandatory. Current shareholdings are shown on page 72.

No element of non-executive 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.

Directors' service agreements and contracts of appointment

The dates on which directors' initial service agreements/letters of appointment commenced and the current expiry dates are as follows:

Chairman and executive directors	Commencement date	Expiry date of current service agreement or letter of appointment
Sir Michael Rake	26 September 2007	The contract is terminable by the company on 12 months' notice and by the director on six months' notice.
I Livingston	1 June 2008	
T Chanmugam	1 December 2008	
G Patterson	1 June 2008	
Non-executive directors		
C Brendish	1 September 2002	Letters of appointment were for an initial period of three years. The appointments were extended for three years in 2005 and by a further three years in 2008. The appointments are terminable by the company or the director on three months' notice.
C G Symon	14 January 2002	
P Hodkinson	1 February 2006	Letter of appointment was for an initial period of three years. The appointment was extended for three years in 2009. The appointment is terminable by the company or the director on three months' notice.
J E Daniels	1 April 2008	Letters of appointment are for an initial period of three years and are terminable by the company or the director on three months' notice.
P Hewitt	24 March 2008	
T Ball	16 July 2009	
Former directors		
H Lalani	7 February 2005	The contract was terminable by the company on 12 months' notice and by the director on six months' notice. The contract was terminated on 11 January 2010.
M van den Bergh	1 September 2000	Letter of appointment was for an initial period of three years. The appointment was extended for three years in 2003 and extended for a further three years in 2006. The appointment was terminable by the company or director on three months' notice. The appointment terminated at the conclusion of the Annual General Meeting on 15 July 2009.
M Alahuhta	1 February 2006	Letter of appointment was for an initial period of three years. The appointment was extended for three months in February 2009. The appointment terminated on 31 May 2009.
D Lathen	1 February 2007	Letter of appointment was for an initial period of three years and was terminable by the company or the director on three months' notice. Appointment terminated on 31 January 2010.

There are no other service agreements or material contracts, existing or proposed, between the company and the directors.
There are no arrangements or understandings between any director or executive officer and any other person pursuant to which any director or executive officer was selected to serve. There are no family relationships between the directors.

Directors' interests

The interests of directors holding office at the end of the year, and their families, in the company's shares at 31 March 2010 and 1 April 2009, or at date of appointment if later, are shown below:

	Number of shares	
Beneficial holdings	**2010**	2009
Sir Michael Rake	108,362	102,056
I Livingston[a,b]	1,084,513	759,108
T Chanmugam[a,b]	205,629	49,249
G Patterson[a,b]	409,181	252,769
T Ball[c]	15,000	–
C Brendish	41,920	36,920
J E Daniels	12,647	12,647
P Hewitt	10,554	6,534
P Hodkinson	16,683	9,261
C G Symon	20,056	20,056
Total	**1,924,545**	**1,248,600**

[a] Includes free shares awarded under the BT Group Employee Share Investment Plan.
[b] The executive directors decided to receive their annual bonuses for 2008/09 in shares. On 1 June 2009, 224,385 shares were purchased for Ian Livingston, 67,097 shares were purchased for Tony Chanmugam and 105,592 shares were purchased for Gavin Patterson.
[c] Tony Ball was appointed as a director on 16 July 2009.

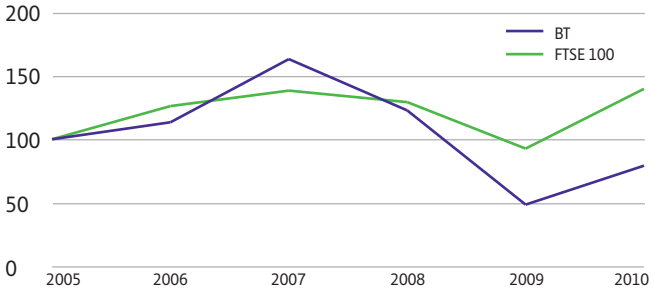
During the period from 1 April 2010 to 7 May 2010, there were no movements in directors' beneficial holdings.

The directors, as a group, beneficially own less than 1% of the company's shares.

Performance graph

This graph illustrates, as required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the performance of BT Group plc measured by TSR relative to a broad equity market index over the past five years. We consider the FTSE 100 to be the most appropriate index against which to measure performance for these purposes, as BT has been a constituent of the FTSE 100 throughout the five-year period, and the index is widely used. TSR is the measure of the returns that a company has provided for its shareholders, reflecting share price movements and assuming reinvestment of dividends.

BT's total shareholder return (TSR) performance
over the five financial years to 31 March 2010



31 March 2005 = 100 Source: Datastream

Remuneration review

This part of the Report on directors' remuneration is subject to audit.

Directors' emoluments

Directors' emoluments for the 2009/10 financial year were as follows:

	Basic salary and fees	Pension allowance net of pension contributions[a]	Total salary and fees	Annual bonus	Expense allowance	Other benefits excluding pension	Total **2010**	Total 2009	Deferred Bonus Plan[b] **2010**	Deferred Bonus Plan[b] 2009
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Sir Michael Rake[c]	600	–	600	–	–	70	670	630	–	–
I Livingston[c]	850	10	860	1,206	–	39	2,105	1,174	1,206	343
T Chanmugam[c,d,e]	475	143	618	463	19	9	1,109	275	346	77
G Patterson[c,d]	500	100	600	487	19	27	1,133	698	365	121
T Ball[f]	53	–	53	–	–	–	53	–	–	–
C Brendish	80	–	80	–	–	–	80	80	–	–
J E Daniels	75	–	75	–	–	–	75	74	–	–
P Hewitt[g]	128	–	128	–	–	–	128	75	–	–
P Hodkinson	100	–	100	–	–	–	100	100	–	–
C G Symon[h]	150	–	150	–	–	24	174	150	–	–
H Lalani[c,d,i]	458	176	634	503	4	25	1,166	805	–	–
M Alahuhta[j]	12	–	12	–	–	–	12	70	–	–
D Lathen[h,k]	63	–	63	–	–	18	81	75	–	–
M van den Bergh[l]	44	–	44	–	–	–	44	150	–	–
F Barrault[m]	–	–	–	–	–	–	–	1,257	–	–
B Verwaayen[n]	–	–	–	–	–	–	–	577	–	–
	3,588	**429**	**4,017**	**2,659**	**42**	**212**	**6,930**	**6,190**	**1,917**	**541**
Termination payments										
H Lalani[o]							131	–		
F Barrault[p]							10	1,599		
B Verwaayen							–	700		
							7,071	**8,489**		

[a] Pension allowance paid in cash for the 2009/10 financial year – see 'Pensions' below.
[b] Deferred annual bonuses payable in shares in three years' time, subject to continued employment.
[c] Other benefits include some or all of the following: company car, fuel or driver, personal telecommunications facilities and home security, medical and dental cover for the director and immediate family, special life cover, professional subscriptions, personal tax advice, and financial counselling.
[d] Expense allowance in the above table includes a monthly cash allowance in lieu of a company car or part of such allowance which has not been used for a company car.
[e] Tony Chanmugam was granted a retention cash award in early 2008 prior to his appointment as a director. He will receive a payment of £315,000 in May 2010.
[f] Tony Ball was appointed as a director on 16 July 2009.
[g] Patricia Hewitt was appointed as Senior Independent Director on 16 July 2009.
[h] Includes an additional fee for regular travel from overseas to Board and Board committee meetings.
[i] Hanif Lalani resigned as a director on 7 January 2010 and left the company on 31 March 2010.
[j] Matti Alahuhta retired as a director on 31 May 2009.
[k] Deborah Lathen retired as a director on 31 January 2010.
[l] Maarten van den Bergh retired as a director on 15 July 2009.
[m] François Barrault resigned as a director on 30 October 2008 and left the company on 30 November 2008.
[n] Ben Verwaayen retired as a director on 30 June 2008.
[o] Hanif Lalani's contract was terminated on 11 January 2010. In accordance with his contract, his salary of £585,000 per annum and the value of all the benefits to which he is entitled, amounting to £195,000 per annum, will continue to be provided until the earlier of nine months from 31 March 2010 or his obtaining full-time employment.
[p] François Barrault continued to receive medical insurance until 30 November 2009, in accordance with the terms of his contract.

The directors' salaries were not increased in 2009/10.

The annual cash bonus awards for 2009/10 are not pensionable. Ian Livingston's bonus of £1,206,000 represented 142% of his current salary (2008/09: 40%), Tony Chanmugam's bonus of £462,650 represented 97% of his current salary (2008/09: 22%) Gavin Patterson's bonus of £487,000 represented 97% of his current salary (2008/09: 32%) and Hanif Lalani's bonus of £503,290 represented 86% of his salary (2008/09: 0%).

Following this year's review of annual salaries, Ian Livingston's salary will be increased to £900,000, Tony Chanmugam's salary will be increased to £510,000 and Gavin Patterson's salary will be increased to £525,000. All increases will be effective from 1 June 2010.

Former directors

Sir Peter Bonfield received, under pre-existing arrangements, a pension of £394,283 payable in the 2009/10 financial year (2008/09 – £390,766).

Baroness Jay retired as a non-executive director on 13 January 2008 but continues as a member of the *Committee for Responsible and Sustainable Business*, for which she receives an annual fee of £6,500.

Deborah Lathen retired as a director on 31 January 2010 and has been appointed as a consultant to BT for which she receives an annual fee of US$70,000 (£44,000).

Loans

There are no outstanding loans granted by any member of the BT Group to any of the directors, or guarantees provided by any member of the BT Group for their benefit.

Pensions

Sir Michael Rake is not a member of any of the company pension schemes, and the company made no payments towards retirement provision. BT provides him with a lump sum death in service benefit of £1m.

Ian Livingston is not a member of any of the company pension schemes, but the company has agreed to pay an annual amount equal to 30% of his salary towards pension provision. The company paid £245,000 into his personal pension plan, plus a cash payment of £10,000 representing the balance of the pension allowance for the 2009/10 financial year. BT also provides him with a lump sum death in service benefit of four times his salary.

Tony Chanmugam is a member of the BTPS but has opted out of future pensionable service accrual. The company pays him an annual allowance equal to 30% of salary towards pension provision. A cash payment of £142,500 was made for Tony Chanmugam for the 2009/10 financial year. BT also provides him with a death in service lump sum benefit of four times salary.

Gavin Patterson receives an annual allowance equal to 30% of salary towards pension provision. Of this amount, £50,000 was paid as an employer contribution into the BTRSS and the balance of £100,000 was paid as a cash payment for the 2009/10 financial year. BT also provides him with a death in service lump sum benefit of four times salary plus a widow's pension of 30% of his capped salary.

Hanif Lalani is a member of the BTPS but opted out of future pensionable service accrual. The company paid an annual allowance equal to 30% of salary towards pension provision. A cash payment of £175,500 was paid to Hanif Lalani for the 2009/10 financial year. BT also provided a death in service lump sum benefit of four times salary and a two-thirds widow's pension.

The table below shows the increase in the accrued benefits, including those referred to above, to which each director who is a member of the BTPS has become entitled during the year, and the transfer value of the increase in accrued benefits.

Increases in pension benefits at 31 March 2010

	Accrued pension		Transfer value of accrued benefits		Change in transfer value c-d less directors' contributions	Additional accrued benefits earned in the year	Transfer value of increase in accrued benefits in e less directors' contributions
	2010 £000[a]	2009 £000[b]	**2010** £000[c]	2009 £000[d]	**2010** £000	**2010** £000[e]	**2010** £000[f]
T Chanmugam[g,h]	180	140	3,536	2,419	1,117	35	693
H Lalani[g,i]	166	161	2,382	1,742	640	–	–

a–d As required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.
a–b The values represent the deferred pension to which they would have been entitled had they left the company on 31 March 2010 and 2009, respectively.
c Transfer value of the deferred pension in column (a) as at 31 March 2010 calculated on the basis of actuarial advice in accordance with relevant legislation. The transfer value represents a liability of the BTPS rather than any remuneration due to the individual, and cannot be meaningfully aggregated with annual remuneration, as it is not money the individual is entitled to receive.
d The equivalent transfer value but calculated as at 31 March 2009 on the assumption that the director left the company on that date.
e The increase in pension built up during the year, net of inflation. The gross amount can be calculated by deducting the amount under column (b) from the amount under column (a).
f The transfer value of the pension in column (e), less directors' contributions.
g Directors' contributions in the financial year 2009/10 were as follows: Hanif Lalani £nil (2009: £nil); Tony Chanmugam, £nil (2009: £9,500).
h Tony Chanmugam was appointed as a director on 1 December 2008.
i Hanif Lalani resigned as a director on 7 January 2010 and left the company on 31 March 2010.

Share options held at 31 March 2010, or date of appointment if later

	Number of shares under option							
	1 April 2009 or date of appointment if later	Granted	Lapsed	Exercised	**31 March 2010**	Option price per share	Usual date from which exercisable	Usual expiry date
Sir Michael Rake	–	12,110[a]	–	–	12,110	68p	01/08/2012	01/02/2013
I Livingston	–	12,110[a]	–	–	12,110	68p	01/08/2012	01/02/2013
T Chanmugam	37,384[b]	–	–	–	37,384	192p	24/06/2007	24/06/2014
	–	12,110[a]	–	–	12,110	68p	01/08/2012	01/02/2013
G Patterson	11,198[d]	–	11,198	–	–	146p	14/08/2009	14/02/2010
	98,178[b]	–	–	–	98,178	192p	24/06/2007	24/06/2014
Former director								
H Lalani[e]	90,625[b]	–	–	–	90,625	192p	24/06/2007	24/06/2014
	105,264[c]	–	–	–	105,264	199.5p	24/06/2004	24/06/2013
	–	12,110[a]	12,110	–	–	68p	01/08/2012	01/02/2013
Total	**342,649**	**48,440**	**23,308**	–	**367,781**			

All of the above options were granted for nil consideration.

[a] Option granted on 7 April 2009 under the Employee Sharesave Scheme, in which all employees of the company are entitled to participate.

[b] Options granted under the GSOP on 24 June 2004. The exercise of options was subject to a performance measure being met. The performance measure is relative TSR compared with a group of 20 companies from the European Telecom Sector as at 1 April 2004. BT's TSR had to be in the upper quartile for all the options to become exercisable. At median 30% of the options would be exercisable. Below that point none of the options could be exercised. The three-year performance period ended on 31 March 2007. At that date, the company was at 8th position against the comparator group and as a result, 42% of the options lapsed and 58% of each option became exercisable on 24 June 2007.

[c] Option granted under the GSOP (Special Incentive Award) on 24 June 2003, prior to Hanif Lalani's appointment as a director. This option is not subject to a performance measure as the grant was linked to personal performance.

[d] Option granted on 25 June 2004 under the Employee Sharesave Scheme, in which all employees of the company are eligible to participate.

[e] Hanif Lalani left the company on 31 March 2010. His options under the GSOP were preserved until 31 March 2011. His options under the Employee Sharesave Scheme lapsed on 31 March 2010.

Unrealised gains on share options

The market price of BT shares at 31 March 2010 was 123.9p (2009: 78.2p) and the range during the 2009/10 financial year was 79.7p-149.6p (2008/09: 71.4p-235.5p).

Tony Chanmugam and Gavin Patterson had no unrealised gains on share options as at 31 March 2010.

Hanif Lalani had no unrealised gains on share options as at 31 March 2010. He left the company on 31 March 2010.

Share awards under long-term incentive plans held at 31 March 2010, or date of appointment, if later

Details of the company's ordinary shares provisionally awarded to directors, as participants under the ISP and RSP are as follows:

	1 April 2009	Awarded	Dividends re-invested	Vested	Lapsed	**Total number of award shares 31 March 2010**	Normal vesting date	Price on grant	Market price at vesting	Monetary value of vested award £000
I Livingston										
ISP 2007[a]	383,307	–	9,961	–	393,268	–	31/3/2010	321.67p	–	–
ISP 2008[b]	1,397,025	–	36,307	–	–	**1,433,332**	31/3/2011	203p	–	–
ISP 2009[c]	–	**1,985,723**	51,606	–	–	**2,037,329**	31/3/2012	128.41p	–	–
T Chanmugam										
ISP 2007[a]	92,411	–	2,400	–	94,811	–	31/3/2010	317.67p	–	–
ISP 2008[b]	145,179	–	3,772	–	–	**148,951**	31/3/2011	203p	–	–
ISP 2009[c]	–	**924,723**	24,032	–	–	**948,755**	31/3/2012	128.41p	–	–
RSP 2007[d]	97,772	–	2,540	100,312	–	–	20/3/2010	300p	121.07	121
G Patterson										
ISP 2007[a]	124,941	–	3,246	–	128,187	–	31/3/2010	317.67p	–	–
ISP 2008[b]	684,815	–	17,797	–	–	**702,612**	31/3/2011	203p	–	–
ISP 2009[c]	–	**973,393**	25,296	–	–	**998,689**	31/3/2012	128.41p	–	–
Former director										
H Lalani										
ISP 2007[a]	251,887	–	6,546	–	258,433	–	31/3/2010	321.67p	–	–
ISP 2008[b]	801,235	–	20,823	–	822,058	–	31/3/2011	203p	–	–
ISP 2009[c]	–	**1,138,870**	29,597	–	1,168,467	–	31/3/2012	128.41p	–	–

[a] Awards under the ISP granted in 2007 vest subject to meeting a performance condition, on 31 March 2010. The performance measure is relative TSR compared with a group of 15 companies from the European Telecom Sector as at 1 April 2007. BT's TSR had to be in the upper quartile for all the shares to vest. At median, 25% of the shares would vest. At 31 March 2010, BT's TSR was at 14th position against the comparator group. As a result all of the awards lapsed on that date.
[b] Awards under the ISP granted on 25 June 2008. 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 the grant. The awards will vest subject to meeting a performance condition, on 31 March 2011. The performance measure is relative TSR compared with a group of 15 companies from the European Telecom Sector as at 1 April 2008. BT's TSR must be in the upper quartile for all the shares to vest. At median, 25% of the shares would vest. Below that point, no shares would vest.
[c] Awards under the ISP granted on 7 August 2009. 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 the grant. 50% of each award of shares is linked to TSR compared with a group of 25 companies and 50% is linked to a three-year cumulative free cash flow measure. The awards will vest subject to meeting the two performance conditions, on 31 March 2012.
[d] Tony Chanmugam was granted an RSP award on 20 March 2007. The award vested in full on 20 March 2010. Vesting of RSP awards is not subject to a performance target being met.
[e] Hanif Lalani left the company on 31 March 2010. On that date, all of his outstanding awards under the ISP lapsed.

Vesting of outstanding share awards and options

		31 March 2010				31 March 2009	
	Vesting date	Free cash flow position	Percentage of shares vesting	TSR position	Percentage of shares vesting	TSR position	Percentage of shares vesting
ISP 2006[a]	31/03/2009	N/A	N/A	14	0%	14	0%
ISP 2007[b]	31/03/2010	N/A	N/A	14	0%	14	0%
ISP 2008[c]	31/03/2011	N/A	N/A	14	0%	14	0%
ISP 2009[d]	31/03/2012	100%	50%	10	31%	–	–

[a] The performance period for the ISP 2006 ended on 31 March 2009. BT's TSR position was at 14th position against the European Telecom Sector of 17 companies. As a result all the shares lapsed on that date.
[b] The performance period for the ISP 2007 ended on 31 March 2010. BT's TSR position was at 14th position against the European Telecom Sector of 15 companies. As a result all the shares lapsed on that date.
[c] The performance period for the ISP 2008 ends on 31 March 2011.
[d] The performance period for the ISP 2009 ends on 31 March 2012. 50% of each award of shares is linked to TSR; and 50% is linked to a three-year cumulative free cash flow measure. (See **Long-term share-based incentives** on page 69). The awards will vest subject to meeting the two performance conditions on 31 March 2012.

Deferred Bonus Plan (DBP) awards at 31 March 2010, or date of appointment, if later

The following DBP awards have been granted to the directors under the DBP. These shares will normally be transferred to participants at the end of the three-year deferred period if those participants are still employed by BT Group.

	1 April 2009	Awarded[a]	Dividends re-invested	Vested	Lapsed	**Total number of award shares 31 March 2010**	Vesting date	Price at grant	Market price at vesting	Monetary value of vested award £000
I Livingston	167,149	–	–	167,149	–	–	1/8/2009	231.58p	124.43p	208
	138,708	–	3,604	–	–	**142,312**	1/8/2010	321.67p	–	–
	221,199	–	5,747	–	–	**226,946**	1/8/2011	203p	–	–
	–	**267,410**	6,948	–	–	**274,358**	1/8/2012	128.41p	–	–
T Chanmugam	51,230	–	–	51,230	–	–	1/8/2009	231.58p	124.43p	64
	37,450	–	972	–	–	**38,422**	1/8/2010	321.67p	–	–
	52,007	–	1,350	–	–	**53,357**	1/8/2011	203p	–	–
	–	**59,972**	1,557	–	–	**61,529**	1/8/2012	128.41p	–	–
G Patterson	84,071	–	–	84,071	–	–	1/8/2009	231.58p	124.43p	105
	57,440	–	1,491	–	–	**58,931**	1/8/2010	321.67p	–	–
	90,267	–	2,344	–	–	**92,611**	1/8/2011	203p	–	–
	–	**94,380**	2,452	–	–	**96,832**	1/8/2012	128.41p	–	–
Former director										
H Lalani[b]	127,351	–	–	127,351	–	–	1/8/2009	231.58p	124.43p	158
	121,533	–	3,158	–	–	**124,691**	1/8/2010	321.67p	–	–
	154,050	–	4,003	–	52,679	**105,374**	1/8/2011	203p	–	–

[a] Awards granted on 3 August 2009 in respect of the financial year 2008/09. 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 the grant.
[b] Hanif Lalani left the company on 31 March 2010. His 2008 award was pro-rated and will vest on 1 August 2011.

Details of DBP awards in respect of the 2009/10 financial year are given in the table on page 73. The number of shares subject to the awards will be calculated using the average middle market price of a BT share for the three days prior to the grant. It is expected that awards will be granted in June 2010.

Share awards under the Employee Share Investment Plan (ESIP) at 31 March 2010, or at date of appointment, if later

	Total number of shares **31 March 2010**
I Livingston	363
T Chanmugam	679
G Patterson	247
Former director	
H Lalani[a]	679

[a] Hanif Lalani left the company on 31 March 2010.

During the year no awards of shares were granted under the ESIP.

By order of the Board

Rt Hon Patricia Hewitt
Chair of Remuneration Committee
12 May 2010