REPORT ON DIRECTORS' REMUNERATION

Overview

- As outlined in the Chairman's message, the executive team has made considerable progress in a challenging year, achieving or exceeding demanding objectives for profitability and cash generation. The Chief Executive was therefore awarded a bonus of 126% of target (79% of the maximum opportunity), compared with 142% of target (71% of the maximum) for the previous year. Half of the bonus will be paid in cash and the remaining half will be deferred into shares receivable in three years' time, subject to continued employment as well as a clawback condition. Whilst customer service improved during the year, the level of improvement was insufficient to justify a payment for that component of the annual bonus.
- During 2011 the Remuneration Committee reviewed the executive pay structure to ensure that it remains closely aligned to BT's corporate strategy and shareholders' interests. The Chair of the Committee led a consultation with major investors and representative bodies as part of the review.
- The Committee agreed to maintain our policy position of setting basic salaries below the median of our comparator group, so that executive directors can only achieve upper quartile total rewards for exceptional performance in line with stretching performance targets.
- As BT moves towards achieving profitable growth, alongside a continuing focus on customer service and cost transformation, the Committee decided to strengthen incentives for long-term performance. In particular, we will increase the element of the annual bonus dependent upon individual and role-specific performance aligned with our long-term strategy, and add a new measure of three-year revenue growth to the long-term incentive shares.
- We have reviewed base salaries and, where appropriate, increased them to bring them closer towards, but still below or around median levels in comparable companies. In making these decisions, we 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 2011.
- BT's executive share plans reach the end of their 10-year life in October 2011. The Committee has agreed that renewed plans should be adopted, generally in the same form as the current plans but updated and amended to reflect best practice and current legislation. Shareholders will be asked to approve the adoption of the plans for a further 10 years at the 2011 Annual General Meeting.

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 2011. As well as meeting statutory requirements, the Remuneration Committee aims to comply with best practice guidelines and apply the principles of good corporate governance 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.

Shareholders will be asked to vote on this Report at the 2011 AGM.

Remuneration policy

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

Remuneration principles

Our policy remains to maintain a competitive remuneration package that will attract, retain and motivate a high quality top team, avoid excessive risk taking 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 shares. 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 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 takes account of the remuneration of other companies of similar size, complexity and geographic reach. The Committee also takes into account the pay and employment conditions of all our employees. For instance, the overall increase in senior managers' pay for 2011 was comparable with the pay settlement offered to our employees generally, with some senior managers receiving no increase. Salary increases for the executive directors are given on page 78.

BT operates in a number of different environments and has many employees who carry out diverse jobs across a number of countries.

- all employees, including directors, are paid by reference to the market rate
- performance is measured and rewarded through a number of performance-related bonus schemes across the group
- business unit performance measures are cascaded down through the organisation
- BT offers employment conditions that reflect our values and are commensurate with a large publicly listed company, including high standards of health and safety and equal opportunities
- BT operates all-employee share plans which are open to all employees and executive directors alike
- BT offers benefits which are available to everyone.

The Committee continues to keep under review the relationship of risk to remuneration and to seek input from the chairman of the *Audit & Risk Committee*. The largest single driver of on-target remuneration remains cash flow (24% of the Chief Executive's total package), reflecting the importance of cash flow to invest in the business, reduce net debt, support the pension fund and pay progressive dividends. In deciding to include three-year revenue growth as a new measure for the long-term incentive shares, we considered carefully the possible risk of incentivising unprofitable revenue growth. We believe, however, that the continued inclusion of total shareholder return (TSR) and free cash flow performance measures, the inclusion of earnings per share (EPS) in the annual bonus plan and the Board's focus on profitable growth will sufficiently mitigate this risk.

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 and health and safety outcomes.

The Committee has reaffirmed its position that the Board and Remuneration Committee have absolute discretion to reduce variable compensation in the light of risk and the Group's overall performance. We would only use this in exceptional circumstances.

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 2010.

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 certain senior executives. The Committee approves new executive share plans and any changes and makes recommendations to the Board 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 Corporate Governance on reward-related matters, and confirms that the company has complied with all aspects of the Code.

The Committee met six times during 2011. The Committee is chaired by Patricia Hewitt, the Senior Independent Director. The current members of the Committee are all independent non-executive directors. The other members who served during 2011 were:

- Eric Daniels
- Carl Symon
- Sir Michael Rake (member until 31 May 2010).

In addition, the Chairman and Chief Executive are invited to attend meetings, except when it would be inappropriate for them to be there, for example, when their 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. In view of the growing demands on remuneration committees from corporate governance requirements, the Committee has been strengthened by the addition of a new member, Tony Ball, with effect from 5 May 2011.

The Committee has received advice during the year from independent remuneration consultants, Towers Watson, who were appointed by the Committee. Towers Watson attended Committee meetings when major remuneration issues were discussed. Towers Watson also provide the company with consultancy services on general human resources (HR) and pensions issues. The Committee regularly consults the Chief Executive, the Group HR Director, the Director Reward and Employee Relations, and the Company Secretary.

The chair of the Committee meets major shareholders, the Association of British Insurers, Risk Metrics (RREV) and Pensions Investment Research Consultants Limited (PIRC) to discuss remuneration issues, on a regular basis.

The Committee reviews its own performance regularly and takes steps to improve its effectiveness.

Remuneration in 2011

The table below summarises the component parts of the remuneration package in 2011. This includes bonuses earned for performance during 2011, payouts received from and awards granted under the executive share plans.

	Ian Livingston	Tony Chanmugam	Gavin Patterson
Base salary	£892,000	£504,000	£521,000
Annual bonus			
Cash	£1,415,250	£604,350	£645,750
Deferred shares	726,514 shares[a]	232,680 shares[a]	248,620 shares[a]
Pension[b]	£32,000	£151,000	£104,000
Other benefits	Company car, fuel or driver, personal telecommunications facilities, medical cover, financial planning		
Incentive shares – awarded	1,675,769 shares	707,546 shares	744,786 shares
– vested	–	–	–
– lapsed	1,499,425	155,818	735,010
Deferred shares – vested	142,312 shares	38,422 shares	58,931 shares
Shareholding requirement	200% salary	150% salary	150% salary

a Awards of deferred shares are expected to be granted in June 2011. An indication of the number of shares to be granted has been calculated by using the share price (194.8p) on 6 May 2011.
b Pension allowance paid in cash for 2011 – see Pensions on page 78.

Salaries

Salaries are reviewed annually but increases are made only where the Committee believes the adjustments are appropriate. In 2011 salaries of the directors were increased to reflect the contribution of the individual, increased responsibilities and market conditions.

Annual bonus

Executive directors are eligible for an annual bonus, based upon corporate performance targets, environmental, social and governance performance and achievement of personal and role-specific objectives. The structure of the annual bonus, approved by shareholders in 2008 and subsequently introduced in phases, is as follows:

	Chief Executive	Executive directors
Annual cash bonus	target 125% salary maximum 200% salary	target 100% salary maximum 150% salary
Deferred bonus into shares	target 125% salary maximum 200% salary	target 75% salary maximum 112.5% salary
Total bonus	target 250% salary maximum 400% salary	target 175% salary maximum 262.5% salary

Following our review, the Committee decided to leave this structure unchanged.

The deferred shares, which are based on the same performance criteria as the cash bonus, are, of course, subject to continued employment as well as to clawback, see **Clawback** on page 73.

Targets for the annual bonus are set at the beginning of the financial year. For 2011, the weighting of the bonus targets were set as follows:

STRUCTURE OF ANNUAL BONUS 2011

ADJUSTED EARNINGS PER SHARE (EPS)	30%
	+
REPORTED FREE CASH FLOW	30%
	+
CUSTOMER SERVICE IMPROVEMENT	20%
	+
ENVIRONMENTAL, SOCIAL AND GOVERNANCE OBJECTIVES (ESG)	10%
	+
ROLE-SPECIFIC OBJECTIVES	10%
	=
TOTAL	100%

The scores for corporate performance targets for 2011 (see **Our strategy** on page 6) were as follows:

Measure (weighting)	Threshold	Target	Maximum	Actual
EPS (30%)	15%	30%	60%	60%
Free cash flow (30%)	15%	30%	60%	60%
Customer service (20%)	10%	20%	40%	0%
Sub-total				120%
ESG (10%)	5%	10%	20%	a
Role-specific objectives (10%)	5%	10%	20%	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. As explained by the Chief Executive in his introduction to the **Business review** on page 9, the company did not always deliver on its promises to customers during 2011; as a result, no payment for the customer service component of the annual bonus will be made.

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.

In 2011 we introduced a new measure, worth 10% of the bonus, relating to individual performance against personal and role-specific objectives based on the company's strategic priorities.

Annual bonuses are paid in cash and deferred shares. Details of the bonuses for Ian Livingston, Tony Chanmugam and Gavin Patterson are set out in the table on page 77.

Annual bonuses are not pensionable.

Deferred shares

As shown in the table above, part of an executive director's annual bonus is deferred into shares. The number of shares under each award is calculated using the average market price of BT shares on the three dealing days preceding the date of grant.

The shares vest and are transferred to the executive after three years if they remain employed by the company. There are no additional performance measures for the vesting of deferred shares but they are subject to clawback. There is no subsequent matching of deferred shares. 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 deferred share awards for previous years for Ian Livingston, Tony Chanmugam and Gavin Patterson at the end of 2011 are contained in the table on page 81.

Incentive shares

The Chief Executive received an award of incentive shares with a value equivalent to 2.5x salary (2010: 3x salary). Other executive directors received awards with a value of 2x salary (2010: 2.5x salary).

The details of all the awards of incentive shares held by Ian Livingston, Tony Chanmugam and Gavin Patterson at the end of the 2011 financial year are contained in the table on page 80. Awards of incentive shares granted in 2011 are given in the table on page 70.

Remuneration in 2012

During 2011 the Remuneration Committee reviewed the senior executive remuneration package, taking into account the challenges to the business, our strategic priorities, the need to ensure alignment with shareholders' interests and the other general principles on which we base executive pay. In particular, as BT moves towards achieving profitable growth, alongside a continuing focus on customer service and cost transformation, the Committee decided to strengthen incentives for long-term performance. As part of the review, we conducted an extensive and helpful consultation with institutional shareholders and representative bodies.

The Committee decided to implement the following changes in 2012:

- At present, incentive shares are based equally on relative total shareholder return (TSR) and three-year free cash flow. We will retain both measures, which are critical to delivering shareholder value. In order to increase the alignment of pay with our focus on long-term profitable growth, we will also introduce a further measure, worth 20%, based on long-term revenue growth. The remaining 80% will be split equally between TSR and free cash flow.
- The new revenue growth measure is based on underlying revenue excluding transit revenue as transit traffic is low-margin and is significantly affected by reductions in regulatory mobile termination rates which have no impact on the group's profitability.
- Our policy is to set measures for the incentive shares for free cash flow and long-term revenue growth so that they are appropriately stretching. The threshold performance level, which must be achieved before shares vest, is established above market expectations when targets are set and the maximum award is only available for outstanding performance. The Committee has decided that the revenue element of the award will begin to vest only if revenue in 2014 is higher than the baseline of 2011. In the face of a tough regulatory environment and intense competition, the Committee believes that the targets they have set for remuneration purposes are very challenging.
- In order to allow greater differentiation between individuals' contribution to the company's strategic priorities, we will increase the weighting in the annual bonus on personal and role-specific objectives aligned with our strategy. For the Chief Executive and Group Finance Director, corporate performance (EPS, free cash flow and customer service) will represent 75% of the scorecard; personal and role-specific objectives aligned with our strategy 15%, and ESG performance 10%. For the other executive director, 60% will be linked to corporate objectives, 15% to business unit objectives, 15% to personal objectives and 10% to ESG performance.
- In order to strengthen the alignment with shareholders' interests, the customer service element of the annual bonus will only be paid if the minimum EPS threshold is also achieved.

The Committee believes that the group performance targets for 2012 are very challenging.

The Committee has considered carefully the relationship of risk to remuneration. 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.

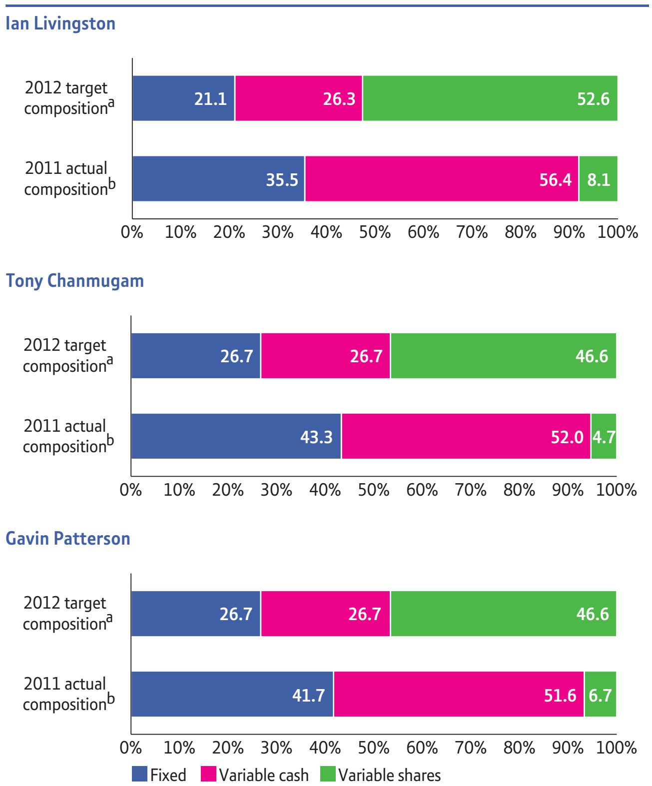
Base salaries have also been reviewed and, where appropriate, increased to bring them more closely towards, but still typically below or around, mid-market levels in comparable companies. In making these decisions, the Committee took account of the position of all BT's employees who will benefit from pay increases and annual bonuses based on the company's performance in 2011.

The structure of the annual bonus (cash and deferred shares) is unchanged for 2012. The value of awards of incentive shares is also unchanged for 2012.

No retention awards or share options will be granted.

Proportion of fixed and variable remuneration

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



[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.
[b] Actual remuneration comprises base salary, actual cash bonus and the value received from deferred shares and incentive shares (awards granted in 2007 and vested in 2010) during the financial year.

Long-term share-based incentives

Incentive shares

BT operates a long-term Incentive Share Plan (incentive shares), based on performance over three years. Shares only vest if the participant is still employed by BT and challenging performance measures have been met. For awards granted in 2008*, the vesting of awards was based entirely on TSR relative to a comparable group of companies; in 2009 and 2010, 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-

* For the grant of share awards and options, references to 2008, 2009, etc., are to the calendar year and not the financial year.

term incentive plan as well as for the annual bonus reflects the importance of cash generation over both the short and medium term.

TSR for these purposes was calculated by JPMorgan 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 awards to be granted in 2011 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 comparator group was the same for awards granted in 2010. In 2009, Cable & Wireless Worldwide replaced Cable & Wireless and TalkTalk replaced Carphone Warehouse.

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.

Historical vesting for executive share plans

Performance conditions for the incentive shares and share options are challenging as demonstrated by the table below. Relative TSR has been the measure for many years. This measure has been retained under the current remuneration policy although a free cash flow measure was added for awards granted in 2009 and 2010, and in 2011 there will be an additional revenue measure.

For recent awards, both TSR and cash flow performance have improved when compared with the last five years and recent awards are projected to vest at higher levels than the awards for the period from 2004 to 2008 as shown below.

The following table shows the vesting levels of BT's incentive share awards and share options granted to executives since 2004.

Year of grant	Performance period	Incentive shares percentage vesting	Share options percentage vesting
2004	2004-2007	55%	58%
2005	2005-2008	25%	–
2006	2006-2009	0%	–
2007	2007-2010	0%	–
2008	2008-2011	0%	–
Average annual vesting		16%	–

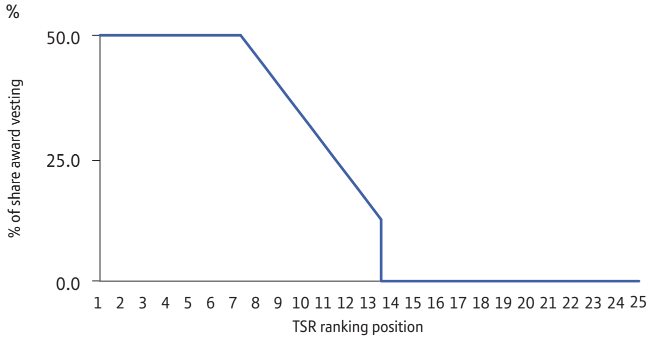
No share options have been granted since 2004.

At 31 March 2011, the TSR for the awards granted in 2008 was at 9th 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 awards of incentive shares granted in 2009 and 2010

The following table shows the potential vesting of awards granted in 2009 and 2010 based on performance to date.

TSR vesting



The remaining 50% of the awards of incentive shares are based on a three-year cumulative cash flow measure. For awards to be granted in 2011, there will be an additional measure of revenue growth over three years, which will form 20% of the measure. The TSR and cash flow measures will each be reduced to 40% of the total measure.

The Committee believes that the free cash flow and revenue performance measures are challenging and the financial performance necessary to achieve awards towards the upper end of the range for each target is stretching. Targets for threshold performance have been established at above market consensus at the time when they were set.

Clawback

The rules of the executive share plans provide for a clawback of unvested awards in circumstances where the Committee becomes aware of facts which would, in its discretion, justify such reduction.

Retention shares

Awards of retention shares are used by exception only and principally as a recruitment or retention tool. As a result, shares currently under award are not generally subject 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 awards of retention shares were made to executive directors, but one award was granted to a senior executive in the 2011 financial year.

Share options

No share options have been awarded under the Global Share Option Plan (GSOP) since 2004.

Details of options held by directors at the end of 2011 are contained in the table on page 79.

Renewal of executive share plans

The four executive share plans, the BT Group Incentive Share Plan, the BT Group Deferred Bonus Plan, the BT Group Retention Share

Plan and the BT Group Global Share Option Plan reach the end of their 10 year life in October 2011.

The Remuneration Committee has agreed that these plans, together the BT Executive Portfolio, should be renewed to deliver share awards as part of the senior executive remuneration package. Accordingly, shareholders will be asked to approve adoption of renewed plans at the AGM in 2011. The renewed plans will be in substantially the same form and have been updated to reflect changes in legislation, best practice and market developments. No material changes to the plans have been made.

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 (ESIP) and Allshare International, on the same basis as other employees. Details of these plans are disclosed in note 6 to the consolidated financial statements.

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 2011 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 2012.

Other matters

Executive share ownership

The Committee believes that the interests of the executive directors should be closely aligned with those of shareholders. The deferred shares and incentive shares 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 2011.

Current shareholdings are set out on page 76.

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 although Tony Chanmugam's pension is based on final salary. 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.

Service agreements

It is group policy for the Chairman and executive directors to have service agreements providing for one year's notice by the company and six months' notice by the director. 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. Tony Chanmugam is a non-executive director and chairman of the audit committee of Barnet and Chase Farm Hospital Trust, for which he receives an annual fee of £6,096 which is donated to charity. On 1 February 2011, Gavin Patterson was appointed as a non-executive director of British Airways for which he receives an annual fee of £50,000.

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 **BT's non-executive directors** on page 63. The letters of appointment of non-executive directors are terminable on notice by the company without compensation. The letters of appointment are open for inspection by the public at the registered office of the company.

Non-executive directors' remuneration

Eight 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 Board reviewed and increased the fees for the non-executive directors in January 2011. The fees had not previously been increased since January 2008. Increases in the fees were consistent with salary levels and increases for the broader employee population. The fees of the non-executive directors will be reviewed annually in the future.

The basic fee for non-executive directors is £62,000 per annum (2010: £60,000). 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 & Risk	£15,000	£15,000
Remuneration	£10,000	£10,000
Nominating & Governance	£7,500	£5,000
Other Board committees	£5,000	£5,000

Patricia Hewitt, as Senior Independent Director, chair of the Remuneration Committee, chair of the Pension Scheme Performance Review Group and a member of the Audit & Risk Committee, receives total fees of £159,500 per annum. Carl Symon receives an additional annual fee of £72,500 as chairman of the Equality of Access Board (a Board committee).

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, BT shares to the value of £5,000 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 76.

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 I Livingston T Chanmugam G Patterson	26 September 2007 1 June 2008 1 December 2008 1 June 2008	The contract is terminable by the company on 12 months' notice and by the director on six months' notice.
Non-executive directors		
C Brendish	1 September 2002	Letter of appointment was for an initial period of three years. The appointment was extended for three years in 2005 and by a further three years in 2008. The appointment will terminate on 31 August 2011. The appointment is terminable by the company or the director on three months' notice.
C G Symon	14 January 2002	Letter of appointment was for an initial period of three years. The appointment was extended for three years in 2005 and by a further three years in 2008. The appointment was extended in January 2011 for 12 months. The appointment will terminate on 13 January 2012. The appointment is terminable by the company or the director on three months' notice.
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 P Hewitt	1 April 2008 24 March 2008	Letters of appointment were for an initial period of three years and are terminable by the company or the director on three months' notice. The appointments were extended for three years in March 2011.
T Ball	16 July 2009	Letter of appointment is for an initial period of three years. The appointment is terminable by the company or the director on three months' notice.
N Rose J Whitbread	1 January 2011 19 January 2011	Letters of appointment are for an initial period of three years. The appointments are terminable by the company or the director on three months' notice.

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 2011 and 1 April 2010, or at date of appointment if later, are shown below:

	Number of shares	
Beneficial holdings	**2011**	2010
Sir Michael Rake	109,710	108,362
I Livingston[a]	1,155,545	1,084,513
T Chanmugam[a]	224,416	205,629
G Patterson[a]	439,473	409,181
T Ball	15,000	15,000
C Brendish	44,670	41,920
J E Daniels	12,647	12,647
P Hewitt	12,391	10,554
P Hodkinson	16,683	16,683
N Rose[b]	50,000	–
C G Symon	20,056	20,056
J Whitbread[c]	640	–
Total	**2,101,231**	**1,924,545**

[a] Includes free shares awarded under the ESIP.
[b] Nick Rose was appointed on 1 January 2011.
[c] Jasmine Whitbread was appointed on 19 January 2011.

During the period from 1 April 2011 to 6 May 2011, 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 vs the FTSE 100

31 March 2006 = 100

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

Remuneration review

The remainder of the Report on directors' remuneration is subject to audit.

Directors' emoluments

Directors' emoluments for the financial year 2011 were as follows:

	Basic salary and fees £000	Pension allowance net of pension contributions[a] £000	Total salary and fees £000	Annual bonus cash £000	Expense allowance £000	Other benefits excluding pension £000	Total **2011** £000	Total 2010 £000	Deferred shares[b] **2011** £000	Deferred shares[b] 2010 £000
Sir Michael Rake[c]	613	–	613	–	–	25	638	670	–	–
I Livingston[c]	892	32	924	1,415	–	20	2,359	2,105	1,415	1,206
T Chanmugam[c,d,e]	504	151	655	604	19	12	1,290	1,109	453	346
G Patterson[c,d]	521	104	625	645	19	11	1,300	1,133	484	365
T Ball	73	–	73	–	–	–	73	53	–	–
C Brendish	82	–	82	–	–	–	82	80	–	–
J E Daniels	76	–	76	–	–	–	76	75	–	–
P Hewitt	152	–	152	–	–	–	152	128	–	–
P Hodkinson	102	–	102	–	–	–	102	100	–	–
N Rose[f]	16	–	16	–	–	–	16	–	–	–
C G Symon[g]	152	–	152	–	–	16	168	174	–	–
J Whitbread[h]	14	–	14	–	–	–	14	–	–	–
	3,197	**287**	**3,484**	**2,664**	**38**	**84**	**6,270**	**5,627**	**2,352**	**1,917**
Termination payments										
H Lalani[i]							612	131		
							6,882	**5,758**		

[a] Pension allowance paid in cash for 2011 – see 'Pensions' on page 78.
[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 directors 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 received a payment of £315,000 in May 2010.
[f] Nick Rose was appointed as a director on 1 January 2011.
[g] Includes an additional fee for regular travel to Board and Board committee meetings.
[h] Jasmine Whitbread was appointed as a director on 19 January 2011.
[i] 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 his benefits to which he was entitled amounting to £195,000 per annum, continued to be provided until 10 January 2011.

The annual cash bonus awards for 2011 are not pensionable. Ian Livingston's bonus of £1,415,250 represented 157.25% of his current salary (2010: 142%), Tony Chanmugam's bonus of £604,350 represented 118.5% of his current salary (2010: 97%) and Gavin Patterson's bonus of £645,750 represented 123% of his current salary (2010: 97%).

Following this year's review of annual salaries, Ian Livingston's salary will be increased to £925,000 (2.8%), Tony Chanmugam's salary will be increased to £535,000 (4.9%) and Gavin Patterson's salary will be increased to £570,000 (8.6%). All increases will be effective from 1 June 2011.

Salary increases for direct reports to the Chief Executive (including the executive directors) were consistent with the salary increases for employees throughout the company.

Sir Michael Rake's salary was increased from £600,000 to £650,000 with effect from 1 January 2011, the first increase since his appointment as Chairman in September 2007. His salary will be reviewed again in January 2012. This increase is consistent with salary increases for employees over the same period.

Former directors

Sir Peter Bonfield received under pre-existing arrangements, a pension of £403,745 in 2011 (2010 £394,283).

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

Deborah Lathen retired as a director on 31 January 2010 and she received an annual fee of US$70,000 (£42,000) as a consultant to BT.

Hanif Lalani, who resigned as a director on 7 January 2010, will receive a deferred pension under the BTPS on his 60th birthday.

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 £234,750 into his personal pension plan, plus a cash payment of £32,250 representing the balance of the pension allowance for the 2011 financial year. BT also provides him with a death in service lump sum 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 £151,250 was made for him for the 2011 financial year. BT also provides him with a death in service lump sum benefit of four times his salary.

Gavin Patterson receives an annual allowance equal to 30% of salary towards pension provision. Of this amount, £52,080 was paid as an employer contribution into the BTRSS and the balance of £104,160 was paid as a cash payment for the 2011 financial year. BT also provides him with a death in service lump sum benefit of four times his salary plus a widow's pension of 30% of his capped salary.

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 2011

	Accrued pension		Transfer value of accrued benefits		Change in transfer value c-d less director's contributions	Additional accrued benefits earned in the year	Transfer value of increase in accrued benefits in e less director's contributions
	2011 £000[a]	2010 £000[b]	**2011** £000[c]	2010 £000[d]	**2011** £000	**2011** £000[e]	**2011** £000[f]
T Chanmugam[g]	191	180	4,197	3,536	661	3	51

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 he would have been entitled had he left the company on 31 March 2011 and 2010, respectively.
c Transfer value of the deferred pension in column (a) as at 31 March 2011 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 2010 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 Tony Chanmugam's contributions in the financial year 2011 were £nil (2010: £nil).

Share options held at 31 March 2011, or date of appointment if later

	Number of shares under option							
	1 April 2010 or date of appointment if later	Granted	Lapsed	Exercised	**31 March 2011**	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
	–	1,485[b]	–	–	1,485	104p	01/08/2015	01/02/2017
I Livingston	12,110[a]	–	–	–	12,110	68p	01/08/2012	01/02/2013
T Chanmugam	37,384[c]	–	–	–	37,384	192p	24/06/2007	24/06/2014
	12,110[a]	–	–	–	12,110	68p	01/08/2012	01/02/2013
G Patterson	98,178[c]	–	–	–	98,178	192p	24/06/2007	24/06/2014
Total	**171,892**	–	–	–	**173,377**			

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] Option granted on 17 June 2010 under the Employee Sharesave Scheme, in which all employees of the company are entitled to participate.

[c] 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 each options lapsed and 58% of each option became exercisable on 24 June 2007.

Note: Hanif Lalani, a former director who left the company on 31 March 2010, had an option over 90,625 shares with an option price of 192p per share and an option over 105,264 shares at 199.5p per share, which were preserved until 31 March 2011. Both options lapsed on 31 March 2011.

The market price of BT shares at 31 March 2011 was 185.6p (2010: 123.9p) and the range during 2011 was 109.9p to 191.1p (2010: 79.7p – 149.6p).

Share awards under long-term incentive plans held at 31 March 2011, or date of appointment, if later

Details of the company's ordinary shares provisionally awarded to directors, as awards of incentive shares are as follows:

	1 April 2010	Awarded	Dividends re-invested	Vested	Lapsed	Total number of award shares 31 March 2011	Vesting date	Price on grant	Market price at vesting	Monetary value of vested award £000
I Livingston										
2008[a]	1,433,332	–	66,093	–	1,499,425	–	31/3/2011	203p	–	–
2009[b]	2,037,329	–	93,945	–	–	**2,131,274**	31/3/2012	128.41p	–	–
2010[c]	–	**1,675,769**	77,273	–	–	**1,753,042**	31/3/2013	134.26p	–	–
T Chanmugam										
2008[a]	148,951	–	6,867	–	155,818	–	31/3/2011	203p	–	–
2009[b]	948,755	–	43,749	–	–	**992,504**	31/3/2012	128.41p	–	–
2010[c]	–	**707,546**	32,626	–	–	**740,172**	31/3/2013	134.26p	–	–
G Patterson										
2008[b]	702,612	–	32,398	–	735,010	–	31/3/2011	203p	–	–
2009[b]	998,689	–	46,051	–	–	**1,044,740**	31/3/2012	128.41p	–	–
2010[c]	–	**744,786**	34,343	–	–	**779,129**	31/3/2013	134.26p	–	–

[a] Awards 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 would vest subject to meeting a performance condition, on 31 March 2011. The performance measure was relative TSR compared with a group of 15 companies from the European Telecom Sector as at 1 April 2008. BT's TSR had to 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. At 31 March 2011, BT's TSR was at 9th position against the comparator group. As a result all of the awards lapsed on that date.

[b] Awards 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.

[c] Awards granted on 25 June 2010. 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 two performance conditions, on 31 March 2013.

Vesting of outstanding awards of incentive shares

		31 March 2011				31 March 2010			
	Vesting date	Free cash flow position	Percentage of shares vesting	TSR position	Percentage of shares vesting	Free cash flow position	Percentage of shares vesting	TSR position	Percentage of shares vesting
2007[a]	31/3/2010	N/A	N/A	14	0%	–	–	14	0%
2008[b]	31/3/2011	N/A	N/A	9	0%	–	–	14	0%
2009[c]	31/3/2012	100%	50%	4	50%	100%	50%	10	31%
2010[d]	31/3/2013	100%	50%	2	50%	100%	50%	–	–

[a] The performance period for the 2007 awards 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.

[b] The performance period for the 2008 awards ended on 31 March 2011. BT's TSR position was at 9th 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 2009 awards 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 72). The awards will vest subject to meeting the two performance conditions on 31 March 2012.

[d] The performance period for the 2010 awards ends on 31 March 2013. 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 72). The awards will vest subject to meeting the two performance conditions on 31 March 2013.

Note: For awards granted in 2009 and 2010, the vesting level is the anticipated level based on performance to date.

Deferred share awards at 31 March 2011, or date of appointment, if later

The following deferred share awards have been granted to the directors. 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 2010	Awarded[a]	Dividends re-invested	Vested	Lapsed	Total number of award shares 31 March 2011	Vesting date	Price at grant	Market price at vesting	Monetary value of vested award £000
I Livingston	142,312	–	–	142,312	–	–	1/8/2010	321.67p	142p	£202
	226,946	–	10,464	–	–	**237,410**	1/8/2011	203p	–	–
	274,358	–	12,650	–	–	**287,008**	1/8/2012	128.41p	–	–
	–	**898,212**	41,417	–	–	**939,629**	1/8/2013	134.26p	–	–
T Chanmugam	38,422	–	–	38,422	–	–	1/8/2010	321.67p	142p	£55
	53,357	–	2,459	–	–	**55,816**	1/8/2011	203p	–	–
	61,529	–	2,836	–	–	**64,365**	1/8/2012	128.41p	–	–
	–	**258,431**	11,916	–	–	**270,347**	1/8/2013	134.26p	–	–
G Patterson	58,931	–	–	58,931	–	–	1/8/2010	321.67p	142p	£84
	92,611	–	4,269	–	–	**96,880**	1/8/2011	203p	–	–
	96,832	–	4,464	–	–	**101,296**	1/8/2012	128.41p	–	–
	–	**272,033**	12,543	–	–	**284,576**	1/8/2013	134.26p	–	–
Former Director										
H Lalani[b]	124,691	–	–	124,691	–	–	1/8/2010	321.67p	142p	£177
	105,374	–	4,858	–	–	**110,232**	1/8/2011	203p	–	–

[a] Awards granted on 25 June 2010 in respect of the 2010 financial year. 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 award of 110,232 shares was pro-rated and will vest on 1 August 2011.

Details of awards of deferred shares in respect of the 2011 financial year are given in the table on page 77. 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 2011.

Share awards under the Employee Share Investment Plan (ESIP) at 31 March 2011, or at date of appointment, if later

	Total number of shares 31 March 2011
I Livingston	363
T Chanmugam	679
G Patterson	247

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

All UK employees may participate in the ESIP. The awards are not subject to any performance conditions.

By order of the Board

Rt Hon Patricia Hewitt
Chair of Remuneration Committee

11 May 2011