

Report on Directors' Remuneration



Rt Hon Patricia Hewitt

Review of the year

Executive remuneration remains a lively and often controversial issue. The committee has kept closely in touch with developments, recognising that this is a key issue for investors, employees and other stakeholders. We have responded in detail to the recent consultations issued by the Department of Business, Innovation and Skills (BIS).

The proposed statutory arrangements for reporting and voting on executive pay come into effect for BT in 2014/15. We have included a number of new disclosures proposed by BIS in this year's report and will, of course, apply the new provisions as they come into effect.

The policies set out in the 2012 Directors' Remuneration Report received a vote in favour of 95.58% of votes cast at the 2012 Annual General Meeting and I thank shareholders for their continued support.

Outcomes for the year

The group has delivered strong financial results this year. The executive team is delivering value for our shareholders.

The outcomes for adjusted Earnings Per Share (EPS), customer service improvement and free cash flow are set out on page 4.

Over the last three years our TSR performance has delivered an increase of 130%, placing BT second against its comparator group of companies (see page 80) and demanding targets for cash generation were exceeded; this compares well with consensus market expectations and performance with other European telecommunications companies.

As a result, shares awarded to executive directors under the 2010 Incentive Share Plan (ISP) will vest in full for only the second time in the history of the ISP, clearly demonstrating the link between pay and performance (see page 79). As occurred last year, employees who have participated in our Sharesave plan, will also benefit from this performance.

For 2012/13 annual bonus, adjusted EPS grew by 12% and a normalised free cash flow outcome of £2.3bn was achieved. However customer service did not meet the demanding targets set by the committee. As a result, the Chief Executive was awarded a bonus equivalent to 65% of the maximum opportunity compared to 73% of the maximum opportunity in 2011/12. Half of the bonus will be paid in cash, with the remaining half deferred into shares receivable in three years' time, subject to continued employment as well as a clawback condition. The table below sets out the summary of remuneration received by or expected to vest to executive directors in respect of their service in 2012/13.

Looking ahead

As we reported last year, the Chief Executive and those reporting directly to him (including executive directors), asked not to be considered for a salary increase. The committee agreed to this request.

For 2013/14, the Chief Executive has again requested that he not be considered for a salary increase, and the committee has consented. The Chief Executive has not received a salary increase in three of the last five years. The committee considers that a salary review is appropriate for Tony Chanmugam and Gavin Patterson. Despite their remuneration being materially below market comparators, these increases are below inflation, reflecting the economic environment. Their salary increases are set out on page 82.

The committee continues to consider the pay and conditions of our employees when setting salary increases for our most senior executives. A comparison with UK employees is used, reflecting the fact that the majority of group employees, and all the senior team, are based in the UK. On average, salary increases for direct reports to the Chief Executive (including executive directors) were below increases for other UK employees.

During the year I met with major investors and their representative bodies, including the Association of British Insurers (ABI), and National Association of Pension Funds (NAPF). We continue to keep executive pay under review, to ensure that it remains aligned with the long-term interests of shareholders and reflects the group's aim to drive profitable revenue growth.

In the light of this review, we will be consulting major investors and representative bodies over the coming months with the intention of making further changes to executive pay structure in 2014/15. Those changes will, of course, be subject to a shareholder vote at the 2014 AGM.

Rt Hon Patricia Hewitt
Committee Chair
9 May 2013

Summary remuneration of executive directors in 2012/13

	Ian Livingston	Tony Chanmugam	Gavin Patterson
Base salary	£925,000	£535,000	£570,000
Annual bonus			
cash	£1,195,865	£545,185	£546,240
deferred shares ^a	431,720 shares	147,613 shares	147,898 shares
Incentive shares to vest ^b	1,896,661 shares	800,811 shares	842,960 shares
Pension ^c	£270,000	£161,000	£171,000
Other benefits	Company car, fuel or driver, personal telecommunications facilities, life and medical cover, financial planning and home security		

^a Award of deferred shares expected to be granted in June 2013. An estimate of the number of shares to be granted has been calculated using the average closing market share price for the 3 month period 1 February to 30 April 2013 of £2.77.

^b ISP awards of shares granted in June 2010, covering the performance period 2011-2013, that will vest in May 2013.

^c Allowance paid in cash, in lieu of pension provision.

This part of the Report is a summary of key elements of our directors' remuneration. Pages 88 to 92 are subject to audit.

The Remuneration Committee

This section describes the membership and role of the committee.

Who we are

Patricia Hewitt chairs the *Remuneration Committee*, made up of independent non-executive directors, which met five times during the year. Our membership and meeting attendance are set out below.

Committee members

Member	Meetings	
	Eligible to attend	Attended
Rt Hon Patricia Hewitt (Chair)	5	5
Tony Ball	5	5
Eric Daniels ^a	1	1
Nick Rose	5	5

^a Eric Daniels retired from the committee on 13 June 2012.

We also held a series of informal meetings during the course of the year to discuss wider remuneration issues. In addition to the committee members, the Chairman and Chief Executive are invited to attend meetings, except in instances where their own remuneration is discussed, or other circumstances where their attendance would not be appropriate.

Our role

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 to them. It makes recommendations to the Board on matters which require shareholder approval and oversees their operation. The committee also determines the basis on which awards are granted under the executive share plans to executives reporting to the senior management team.

You can view our terms of reference at www.bt.com/committees



Advisors

The committee received advice during the year from independent remuneration consultants Deloitte LLP. Deloitte LLP were appointed by the committee in 2011/12. The independent remuneration consultants attended all committee meetings. Deloitte LLP also provided the company with advice on corporate and indirect taxes, regulatory and risk issues, pensions and additional consultancy services.

The committee regularly consults the Chief Executive, the Group People Director, the HR Director, Reward and Employee Relations, and the Group General Counsel and Company Secretary.

Remuneration principles

Our remuneration principles are to maintain a competitive remuneration package that will attract, retain and motivate a high quality top team, avoid excessive or inappropriate risk taking and align their interests with those of shareholders.

We believe in pay for performance against challenging targets and stretching goals for the annual bonus (including deferred shares) and long-term incentive shares. Our policy is to set base salaries below the median for our comparator group. 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.

The committee believes that the free cash flow and revenue performance measures set are challenging, and the financial performance necessary to achieve awards towards the upper end of the range for each target is stretching. Targets for performance are established at above market expectation at the time they are set.

In setting directors' remuneration, the committee takes account of the remuneration of other companies of similar size and complexity, using a comparator group defined with the assistance of our independent remuneration consultants. The committee also takes into account the pay and employment conditions of all our employees.

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 for managers 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 in many countries. These are open to all employees
- BT offers a range of employee benefits many of which are available to everyone.

The committee continues to keep under review the relationship of risk to remuneration. The Chair of the *Audit & Risk Committee* is a member of the *Remuneration Committee* and the Chair of the *Remuneration Committee* is also a member of the *Audit & Risk Committee*. The largest single driver of on-target remuneration remains free cash flow (24% of the Chief Executive's variable pay at target), reflecting the importance of free cash flow to invest in the business, reduce net debt, support the pension fund and pay progressive dividends.

The committee is also satisfied that the incentive structure for senior executives does not raise environmental, social or governance (ESG) risks by inadvertently motivating irresponsible behaviour. Part of the annual bonus depends upon an assessment of each senior executive's personal contribution to ESG measures, including results of the regular employee surveys and health and safety outcomes. Compliance with these standards is a basic criterion expected of all executives.

The committee retains absolute discretion to reduce variable compensation in light of risk and the group's overall performance. We would only use this in exceptional circumstances.

Remuneration in 2012/13

This section sets out the implementation of executive director remuneration for 2012/13.

Salaries

Salaries are reviewed annually. The executive directors requested that the committee not consider them for any salary increase for the year 2012/13. Accordingly executive director salaries were not increased during the year. The salaries paid to the executive directors are set out on page 88.

Annual bonus

Executive directors were eligible for an annual bonus based on corporate performance targets, ESG measures and individual targets. The customer service element of annual bonus is only paid if a minimum adjusted EPS threshold is achieved. The annual bonus is paid in two elements, a cash element, and a deferred element paid in shares as set out below.

The two financial targets for the annual bonus are two of our key performance indicators and have a direct impact on shareholder value, while customer service and broader objectives are vital to the company's long-term health and growth. The 2012/13 group financial and customer service targets and achievement against these targets is set out in the table below. The committee is satisfied that the measures are appropriate and that the targets were stretching, as confirmed by the table below.

2012/13 Bonus Targets and Achievements

Measure	Outcome	Threshold	On target	Maximum
Adjusted EPS	26.6p		73.6%	
Normalised free cash flow	£2,300m		39.8%	
Customer service improvement	✓ 4%		10.7%	

Level of bonus for executive directors

	Chief Executive	Other Executive directors
Annual cash bonus	Target 125% salary Maximum 200% salary	Target 100% salary Maximum 150% salary
Deferred bonus in 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

In calculating adjusted EPS specific items are excluded as set out on page 22.

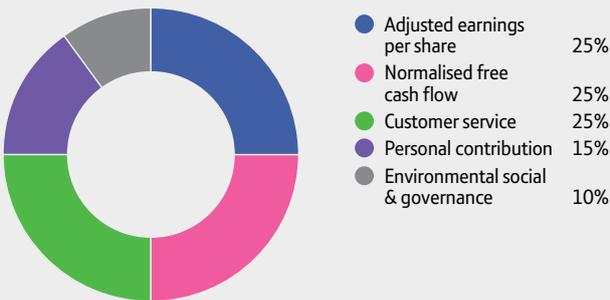
The measure for free cash flow within the annual bonus is normalised free cash flow. The use of normalised free cash flow more closely aligns remuneration metrics with results delivered by the group's underlying trading activities and key measures of performance in our reported results. The definition of normalised free cash flow is set-out on page 22.

Customer service is measured by rigorous and challenging 'Right First Time' and customer issue reduction metrics across each line of business. Customer service is measured on a quarterly basis. Payment for the 2012/13 bonus reflected good performance in the first quarter followed thereafter by issues largely related to weather.

The annual bonuses in 2012/13 were assessed by the committee on a number of factors. The annual bonus structure for 2012/13 was:

Chief Executive and Group Finance Director

% Weighting



The ESG measure is aligned to our strategy and is assessed by the Chief Executive for each senior executive, and by the Chairman for the Chief Executive. Assessment is based upon BT's regular employee survey as well as health and safety and sustainability measures.

Performance against personal contribution and ESG measures is assessed individually.

Ian Livingston's cash bonus represented 129% of his current salary (2011/12: 145%), Tony Chanmugam's cash bonus represented 102% of his current salary (2011/12: 113%) and Gavin Patterson's cash bonus represented 96% of his current salary (2011/12: 108%).

The cash and deferred elements of the annual bonus are set out in the table on page 77. Details of the deferred share element of the bonus relating to 2011/12, granted in June 2012, are set out on page 89.

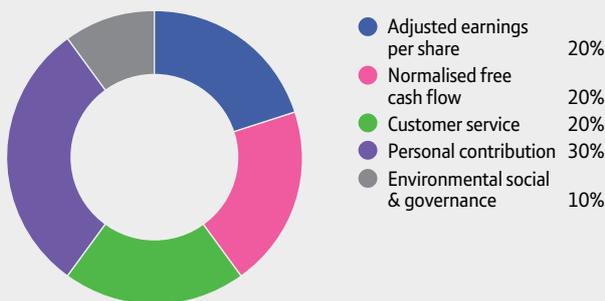
Incentive Share Plan

ISP Vesting in 2012/13

The long-term share element of executive remuneration is the Incentive Share Plan (ISP). Details of the ISP arrangements in 2012/13 are set out below. A description of the ISP awards that have not yet vested is set out on page 90.

CEO, BT Retail

% Weighting



For the ISP awards granted in June 2010, and due to vest in May 2013, 50% of the award is based on relative TSR measured against a comparator group containing European telecommunication companies and companies which are of a similar size or market capitalisation, and have activities that are similar to parts of BT's business or operate in comparable markets. The other 50% is based on a three-year cumulative reported free cash flow measure. The TSR comparator group for the ISP 2010 comprised the following companies:

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

When we set the performance measures for the ISP 2010, the threshold for three-year cumulative free cash flow was £5.1bn, which had to be achieved before any shares would vest. A further performance range of £1bn was set above this (to £6.1bn), which if achieved would cause all of the shares under the cash flow element of the award to vest. The upper part of the range was considered to be extremely stretching and was well above consensus market expectations at the time. We met the measure in full with a cumulative three-year free cash flow outcome in excess of £6.6bn. The company's shares achieved a TSR performance of 130%. This was upper decile performance (2nd out of 25 companies) during the three-year period. This strong return for shareholders contributed to the ISP 2010 awards vesting in full. The number of shares due to vest under the ISP 2010 is set out below.

Director	ISP Vesting ^a
Ian Livingston	1,896,661 shares
Tony Chanmugam	800,811 shares
Gavin Patterson	842,960 shares

^a ISP award will vest in May 2013.

ISP Awards made in 2012/13

The table below sets out the ISP 2012 awards that were made in June 2012. The performance criteria for the awards are set out below.

Director	ISP Award ^a
Ian Livingston	1,143,292 shares
Tony Chanmugam	529,004 shares
Gavin Patterson	563,612 shares

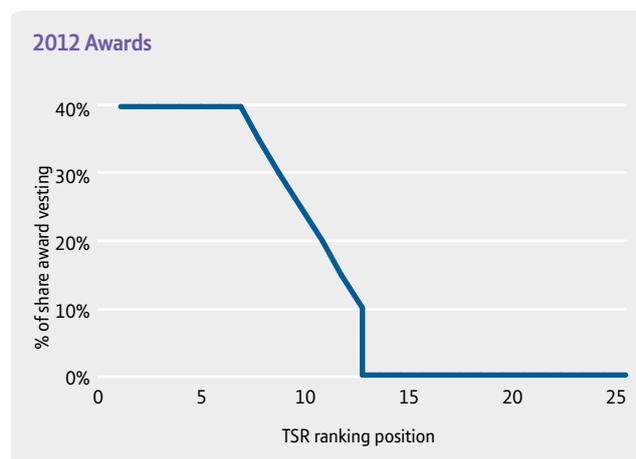
^a ISP award granted on 20 June 2012.

The awards granted in June 2012 were based 40% on relative TSR, 40% on cumulative normalised free cash flow, and 20% on underlying revenue growth (excluding transit revenue) over a three-year performance period ending 31 March 2015. The performance conditions for these awards were the same as for those granted in June 2011 (other than the use of a normalised free cash flow measure in place of the adjusted free cash flow measure to align with our key performance indicator) with targets calibrated for the three-year performance period from 2012. Once again the committee has set stretching performance targets.

The award levels were based on an incentive share award of 2.5x salary for the Chief Executive (2011/12: 2.5x salary) and 2x salary for other executive directors (2011/12: 2x salary).

TSR vesting schedule for awards of incentive shares granted in 2012

For awards made in June 2012, 40% of the potential outcome is based on relative TSR. The following graph shows the potential vesting of awards granted in 2012 based on the TSR element.



A description of the comparator group is set out on page 83.

Historic vesting for executive share plans

Performance conditions for the incentive shares 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 2009/10 and after, and in 2011/12 onwards an additional underlying revenue growth (excluding transit) measure was added. The following table shows the vesting levels of BT's incentive share awards granted to executive directors since 2005.

Historic vesting of ISP

Year of grant	Performance period	Incentive shares percentage vesting
2005	2005-2008	25%
2006	2006-2009	0%
2007	2007-2010	0%
2008	2008-2011	0%
2009	2009-2012	100%
2010	2010-2013	100%
Average annual vesting		37.5%

Pensions

For executive directors the company agrees to pay an amount equal to 30% of salary each year which can be put forward to the provision of retirement benefits. Executive directors who are not members of the BT Pension Scheme benefit from a death in service lump sum of four times salary and a dependent's pension of 30% of capped salary. Payments made are set out on page 88.

Remuneration Policy

A summary of remuneration policy is set out below.

Salary	Salaries are reviewed annually. Our policy is to set base salaries below the median for our comparator group. The pay and conditions for all UK employees are considered when setting salaries for executive directors. Salary increases for executive directors are set out on page 82.												
Annual bonus	Executive directors are eligible for an annual bonus. The annual bonus is paid in two elements, a cash element, and a deferred element paid in shares. The deferred share element is subject to clawback provisions and must be held for three years before vesting. There are no performance conditions applying to the deferred shares other than a requirement for continuous employment. There is no matching of deferred shares by the company. Annual bonus is not pensionable. The award of deferred shares helps to ensure that a significant proportion of the total remuneration package is variable and linked to performance. It also acts as a retention measure and strengthens further the alignment of management interests with the long-term interests of shareholders. The level of bonus opportunity for executive directors is: <table border="1" data-bbox="494 716 1473 974"> <thead> <tr> <th></th> <th>Chief Executive</th> <th>Other executive directors</th> </tr> </thead> <tbody> <tr> <td>Annual cash bonus</td> <td>target 125% salary maximum 200% salary</td> <td>target 100% salary maximum 150% salary</td> </tr> <tr> <td>Deferred bonus in shares</td> <td>target 125% salary maximum 200% salary</td> <td>target 75% salary maximum 112.5% salary</td> </tr> <tr> <td>Total bonus</td> <td>target 250% salary maximum 400% salary</td> <td>target 175% salary maximum 262.5% salary</td> </tr> </tbody> </table> The annual bonus weighting is set out on page 82.		Chief Executive	Other executive directors	Annual cash bonus	target 125% salary maximum 200% salary	target 100% salary maximum 150% salary	Deferred bonus in 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
	Chief Executive	Other executive directors											
Annual cash bonus	target 125% salary maximum 200% salary	target 100% salary maximum 150% salary											
Deferred bonus in 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											
Incentive Share Plan (ISP)	The ISP forms the long-term variable element of executive remuneration with a performance period of three years. Performance measures are based on: <ul style="list-style-type: none"> — relative TSR measured against a comparator group containing European telecommunications companies and companies which are of a similar size or market capitalisation, and/or a similar business mix to BT — a free cash flow measure — underlying revenue growth (excluding transit revenue) The use of TSR as a performance measure links reward for executive directors with BT performance against other major companies. Targets for free cash flow reflect the importance to the group of investment in the business, repayment of debt, support to the pension scheme and payment of dividends. The revenue growth measures align with the group's aim to drive profitable revenue growth. Further information on the ISP is set out on page 82.												
Retention shares	Awards of retention shares are used by exception only and are principally a recruitment and retention tool. As a result, awards are not generally subject to a corporate performance target, with lengths of retention before vesting flexible (although this would normally be three years unless the committee agrees otherwise).												
Share options	No share options have been granted since 2004 and there is no intention to do so in 2013/14.												
Clawback	The rules of the executive share plans provide for clawback of unvested shares in circumstances where the committee becomes aware of facts which would, in its discretion, justify such a reduction.												
Executive share ownership	The committee believes that the interests of executive directors should closely align with shareholders. Accordingly directors are encouraged to build up a shareholding over time by retaining shares received under executive share plans (other than those sold to meet National Insurance contribution and income tax liability). The Chief Executive is required to build up a shareholding of 2x salary and the remaining executive directors 1.5x salary.												
Pensions	For executive directors the company agrees to pay an amount equal to 30% of salary each year which can be put toward the provision of retirement benefits. Executive directors who are not members of the BT Pension Scheme benefit from a death in service lump sum of 4x salary and a dependant's pension of 30% of capped salary.												

Remuneration Policy in 2013/14

The committee is not proposing any changes to the remuneration structure for 2013/14. We will be consulting major investors and representative bodies over the coming months with the intention of making changes to executive pay structure in 2014/15 subject to approval at the 2014 AGM.

Salaries

Salaries are reviewed annually. The executive directors requested that the committee not consider them for any salary increase for the year 2012/13 and the committee agreed to this request. For 2013/14, the Chief Executive again asked not to be considered for a salary review, and the committee accepted this request. The committee reviewed salaries for 2013/14 for the other executive directors, taking into account performance during 2012/13, and the percentage salary increases for other UK group employees. The committee agreed the salary increases set out below:

	2012/13	2013/14	Increase
Ian Livingston	£925,000	£925,000	0%
Tony Chanmugam	£535,000	£550,000	2.8%
Gavin Patterson	£570,000	£585,000	2.6%

The percentage salary increases for Tony Chanmugam and Gavin Patterson are broadly in line with those for other UK employees.

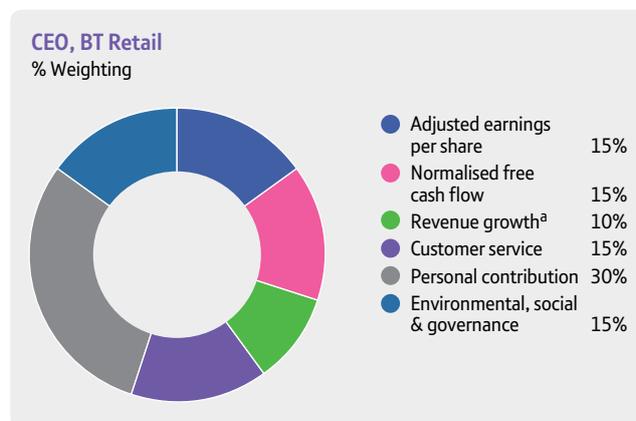
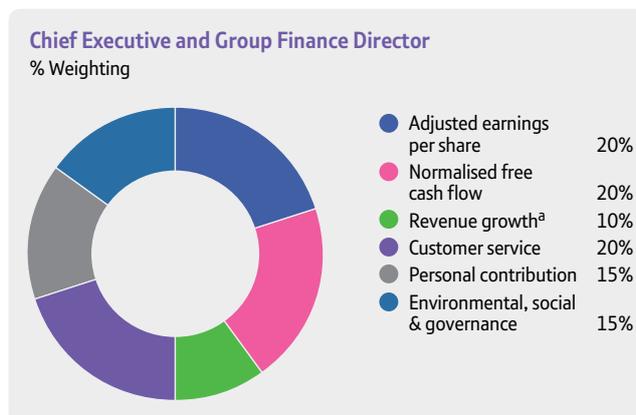
Annual bonus

Executive directors are eligible for an annual bonus based on corporate performance targets, ESG measures and individual targets. The customer service element of annual bonus is only paid if a minimum adjusted EPS threshold is achieved. The annual bonus is paid in two elements, a cash element, and a deferred element paid in shares. The levels of bonus opportunity are set out in the policy statement on page 81.

We do not publish details of the adjusted EPS, normalised free cash flow and revenue growth bonus thresholds in advance for 2013/14, since these are commercially confidential. We will publish achievement against targets at the same time as we disclose bonus payments in the Annual Report 2014, so that shareholders can evaluate performance against those targets.

The bonus structure has been amended for 2013/14 to include a growth measure to reflect our aim to drive profitable revenue growth. This increases alignment between the annual bonus and long-term elements of remuneration. Adjusted EPS and normalised free cash flow are two of our KPIs and have a direct impact on shareholder value while customer service is vital to the long-term health of the business and is a key element of our strategy. Payment of bonus against customer service is only made if a minimum adjusted EPS threshold is met.

The annual bonus structure for 2013/14 is set out below.



^a Underlying revenue growth (excluding transit revenue).

Long-term share-based incentives

Incentive shares

BT operates a long-term ISP (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.

The ISP 2013 awards, expected to be made in June 2013 (as set out on page 83), will be made at the same percentage of salary level as the ISP 2012 awards and with the same mix of performance conditions. Given the movement in share price over the previous year, a lower number of shares is likely to be awarded in June 2013. The performance conditions will be based 40% on relative TSR, 40% on normalised free cash flow, and 20% on underlying revenue growth (excluding transit revenue) over a three-year performance period. The target range for the normalised free cash flow element for the three year performance period 2013/14 – 2015/16 and underlying revenue growth (excluding transit revenue) is set out in the table below.

Measure 2013/14 – 2015/16	Threshold	Level of vesting	Maximum	Level of vesting ^a
Normalised free cash flow	£7.4bn	25%	£8.4bn	100%
Revenue growth ^b	1%	25%	4%	100%

^a Vesting levels between threshold and maximum will be on a straight line basis.
^b Underlying revenue growth (excluding transit revenue).

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 consensus market expectations at the time set.

TSR for these purposes is 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 June 2013 comprises the following companies:

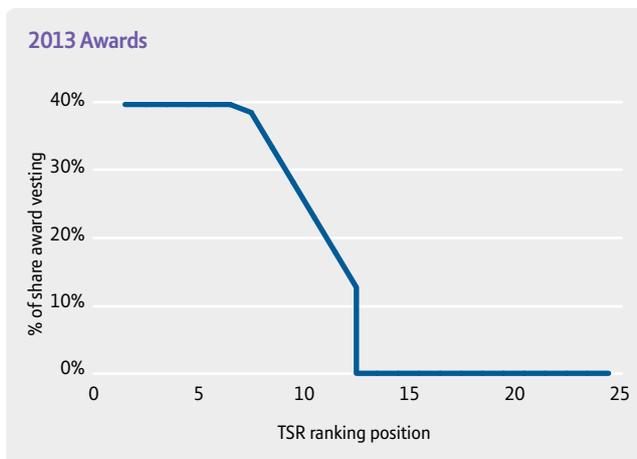
Accenture	France Telecom	Telecom Italia
AT & T	Hellenic Telecom	Telefónica
Belgacom	IBM	Telekom Austria
BSkyB	National Grid	Telenor
BT Group	Portugal Telecom	TeliaSonera
Cap Gemini	Royal KPN	Verizon
Centrica	Swisscom	Virgin Media
Deutsche Telekom	TalkTalk	Vodafone

The TSR comparator group is the same for awards granted in June 2012 and June 2011 except for the deletion of Cable & Wireless Worldwide which has been acquired by Vodafone.

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.

TSR vesting schedule for awards of incentive shares granted in 2013

For awards to be made in June 2013, 40% of the potential outcome is based on relative TSR. The following graph shows the potential vesting of awards to be granted in 2013 based on the TSR element.



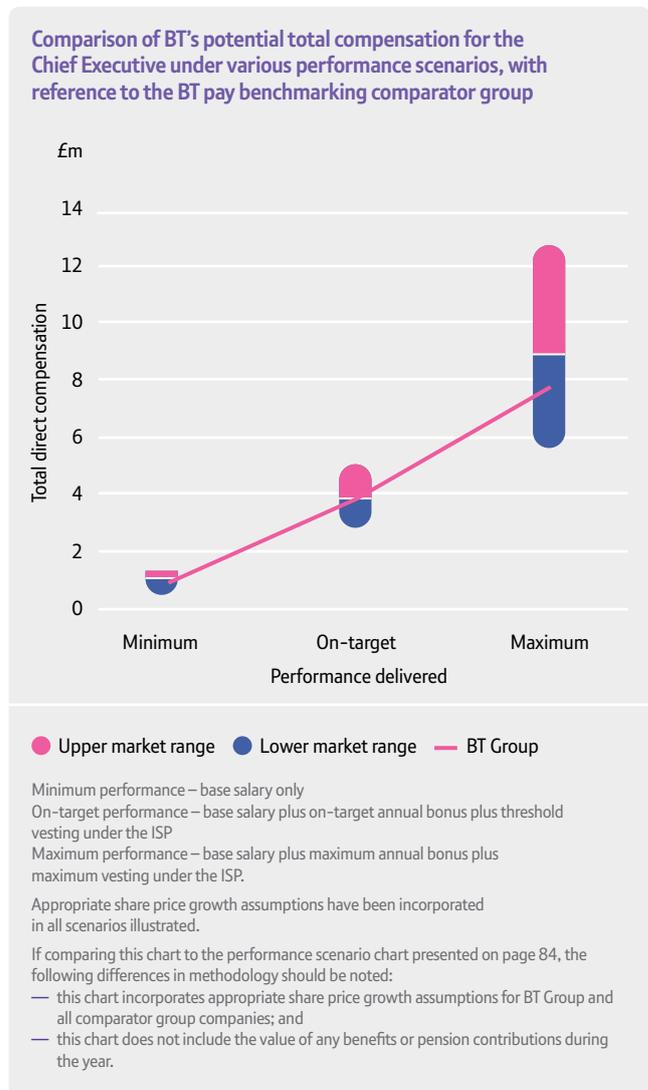
The table below sets out the proposed ISP 2013 awards that are expected to be made in June 2013. These awards are based on an incentive share award of 2.5x salary for the Chief Executive (2012: 2.5x salary) and 2x salary for other executive directors (2012: 2x salary).

Director	ISP Award ^a
Ian Livingston	834,838 shares
Tony Chanmugam	397,112 shares
Gavin Patterson	422,383 shares

^a ISP grant to be awarded. An estimate of the number of shares awarded calculated using the average closing market share price for the 3 month period 1 February to 30 April 2013 of £2.77.

2013/14 Remuneration Scenarios

The committee has considered the level of total remuneration that would be payable under different performance scenarios and is satisfied that, as the graph below illustrates, executive pay remains closely aligned with shareholders' interests.



Executive director scenarios

The scenarios below set out the total remuneration that would be received by each executive director for different levels of performance based on 2012/13 remuneration.

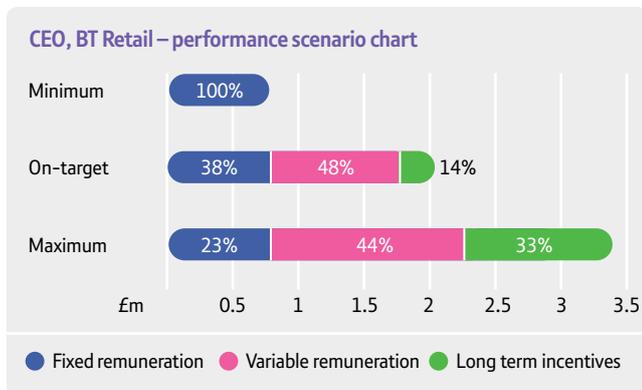
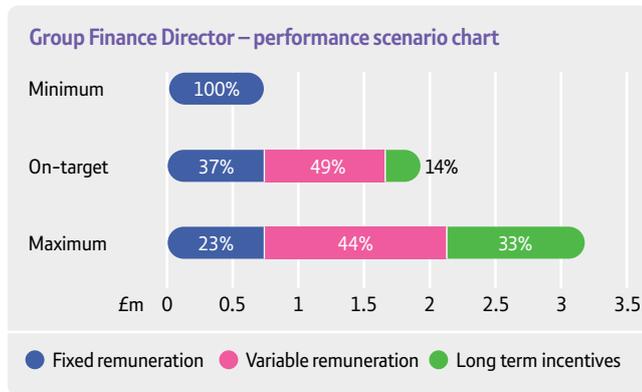
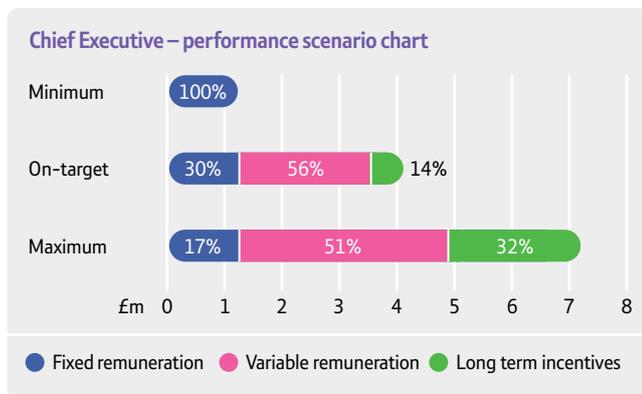
The minimum reflects base salary, pension and benefits only which are not performance related.

The on-target scenario is based on:

- salary, pension and benefits
- cash bonus ‘on-target’ and deferred bonus in shares
- ISP vesting at threshold

The maximum amounts are based on:

- salary, pension and benefits
- cash bonus at ‘maximum’ and deferred bonus in shares
- ISP vesting in full



Other Policies

Exit payment policy

The service agreements of the Chairman, Ian Livingston, Tony Chanmugam and Gavin Patterson entitle them on termination of their contract by BT to payment equal to salary and the value of benefits, pension benefits (including life cover), health cover, dental cover and car (but not bonus) 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 although awards under the ISP and deferred share element of annual bonus may vest in this event.

Retention shares

Awards of retention shares are used by exception only and principally as a recruitment or retention tool. 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. There has been no award of retention shares to executive directors or to direct reports of the Chief Executive in 2012/13, nor are there any unvested awards for this population. Only five awards were made in 2012/13, principally for recruitment purposes.

Share options

No share options have been awarded under the Global Share Option Plan (GSOP) since 2004 and there is no intention to award options in 2013/14. Details of share options held by directors at the end of the year are shown in the table on page 91.

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.

Other share plans

The Chairman and executive directors may participate in BT’s all-employee share plans, the Employee Sharesave Scheme and Employee Share Investment Plan (ESIP), on the same basis as other employees.

Dilution

For a number of years we have generally used treasury shares to satisfy the exercise of share options and the vesting of share awards under our employee share plans. We intend to use both treasury shares and shares purchased by the BT Group Employee Share Ownership Trust for this purpose in 2013/14. At the end of 2012/13 shares equivalent to 9.1% of the issued share capital (excluding treasury shares) would be required for all share options and awards outstanding. Of these, we estimate that for 2013/14, shares equivalent to approximately 1.3% of the issued share capital (excluding treasury shares) will be required for all the employee share plans.

Other matters

Service agreements

The Chairman and executive directors have service agreements, approved by the committee, providing for one year's notice by the company and six months' notice by the director.

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 of termination. All Board appointments automatically terminate in the event of a director not being elected or re-elected by shareholders. The appointment of a non-executive director is terminable on notice by the company without compensation. 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 on page 86. The letters of appointment are open for inspection by the public at the registered office of the company.

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 Board last increased the fees for non-executive directors in January 2011. The fees for non-executive directors will be kept under review.

The basic fee for non-executive directors is £62,000 per year (2011/12: £62,000). 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 *BT Pensions Committee* and a member of the *Audit & Risk* and *Nominating & Governance Committees*, receives total fees of £159,500 per year. Phil Hodgkinson receives an additional annual fee of £72,500 as chairman of the EAB (a Board committee).

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

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 87.

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.

Executive share ownership

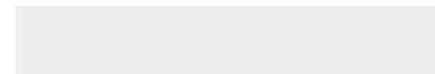
The committee believes that the interests of the executive directors should be closely aligned with those of shareholders. The deferred shares and incentive shares provide considerable alignment. The directors are encouraged to build up a shareholding in the company over time by retaining shares which they have received under an executive share plan (other than shares sold to meet a National Insurance contribution 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 executive directors 1.5x salary.

At 31 March 2013, all the executive directors had met this shareholding requirement, as set out in the table below.

Executive Director	Personal Shareholding as a percentage of salary
Ian Livingston	523%
Tony Chanmugam	181%
Gavin Patterson	368%

Committee evaluation

The committee reviews its performance with Board members and other participants, including through the annual Board evaluation. As a result, the committee has introduced informal meetings where broader issues can be discussed, to improve the efficiency and effectiveness of formal meetings.



Directors' service agreements and letters 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 agreement 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		
P Hodgkinson	1 February 2006	Letter of appointment was for an initial period of three years. The appointment was extended for a further three years in February 2012 following extension in 2009.
P Hewitt	24 March 2008	Letter of appointment was for an initial period of three years. The appointment was extended for a further three years in March 2011.
T Ball	16 July 2009	Letter of appointment was for an initial period of three years. The appointment was extended for a further three years in June 2012.
N Rose	1 January 2011	Letters of appointment are for an initial period of three years.
J Whitbread	19 January 2011	
K Richardson	1 November 2011	

There are no other service agreements, letters of appointment 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. The appointment of non-executive directors is terminable by the company or the director on three months' notice with automatic termination in the event of not being elected or re-elected by shareholders.

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 is a non-executive director of British Airways for which he receives an annual fee of £50,000 and the benefit of free BA flights.

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 2013 and 1 April 2012, or at date of appointment if later, are shown below:

Beneficial holdings	Number of shares	
	2013	2012
Sir Michael Rake	129,418	116,430
I Livingston ^a	2,391,549	1,270,335
T Chanmugam ^a	543,318	251,149
G Patterson ^a	1,060,557	486,986
T Ball	21,950	15,000
P Hewitt	18,234	18,234
P Hodkinson	22,857	22,857
N Rose	50,000	50,000
K Richardson ^b	3,000	-
J Whitbread	5,190	2,940
Total	4,246,073	2,233,931

^a Includes free shares awarded under the ESIP.
^b Shares are held as 300 American Depositary Shares (ADS). One ADS equates to 10 BT Group plc ordinary shares.

During the period from 1 April 2013 to 9 May 2013, there were no movements in directors' beneficial holdings.

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

Voting at the 2012 Annual General Meeting

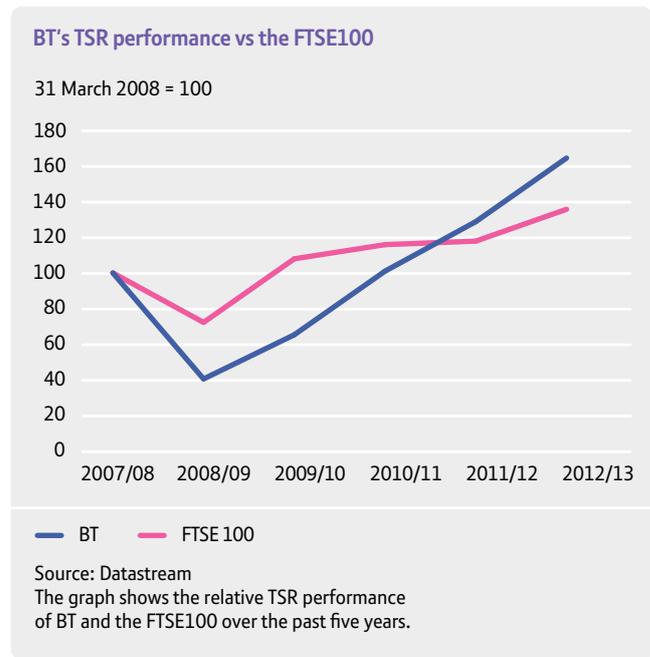
The votes cast in respect of the Directors' Remuneration Report at the Annual General Meeting held on 11 July 2012 were:

Votes cast in favour	%	Votes cast against	%
4,669,900,327	95.58%	216,108,429	4.42%

99,916,456 votes were withheld. A vote withheld is not counted when calculating voting outcomes.

Total Shareholder Return

This graph illustrates the performance of BT Group plc measured by TSR relative to a broad equity market index over the past five years. We consider the FTSE100 to be the most appropriate index against which to measure performance, as BT has been a constituent of the FTSE100 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.



Remuneration Review

The following sets out the full review of directors' emoluments, including bonus and deferred bonus, and long-term incentive plans and pension arrangements. **The remainder of the Report on Directors' Remuneration is subject to audit.**

Directors' emoluments

Directors' emoluments for the financial year 2012/13 were as follows.

	Basic salary and fees £000	Cash in lieu of pension ^a £000	Total salary and fees £000	Annual cash bonus ^b £000	Expense allowance £000	Other benefits excluding pension £000	Total 2013 £000	Total 2012 £000
Sir Michael Rake ^c	650	–	650	–	–	21	671	672
I Livingston ^c	925	270	1,195	1,196	–	21	2,412	2,505
T Chanmugam ^{c,d}	535	161	696	545	19	6	1,266	1,329
G Patterson ^{c,d}	570	171	741	546	19	10	1,316	1,335
T Ball	79	–	79	–	–	–	79	79
J E Daniels ^f	20	–	20	–	–	–	20	80
P Hewitt	160	–	160	–	–	–	160	160
P Hodgkinson	156	–	156	–	–	–	156	121
K Richardson ^e	75	–	75	–	–	14	89	34
N Rose	105	–	105	–	–	–	105	82
J Whitbread	82	–	82	–	–	–	82	71
Total	3,357	602	3,959	2,287	38	72	6,356	6,408

^a Pension allowance paid in cash for the financial year 2012/13 – see 'Pensions' on page 91.

^b Annual cash bonus. Deferred element of bonus is set out in the remuneration summary table on page 77.

^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 Includes an additional fee for regular travel to Board and Board committee meetings.

^f Eric Daniels retired as a director on 12 June 2012.

Deferred Bonus Plan (DBP) awards at 31 March 2013

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 2012	Awarded ^a	Dividends re-invested	Vested	Lapsed	Total number of award shares 31 March 2013	Vesting date	Price at grant	Market price at vesting	Monetary value of vested award £000
I Livingston										
DBP 2009	299,350	–	–	299,350	–	–	1/8/2012	128.41p	217.98p	653
DBP 2010	980,037	–	36,571	–	–	1,016,608	1/8/2013	134.26p	–	–
DBP 2011	742,386	–	27,703	–	–	770,089	1/8/2014	198.83p	–	–
DBP 2012	–	664,619	24,801	–	–	689,420	1/8/2015	202.26p	–	–
T Chanmugam										
DBP 2009	67,132	–	–	67,132	–	–	1/8/2012	128.41p	217.98p	146
DBP 2010	281,972	–	10,521	–	–	292,493	1/8/2013	134.26p	–	–
DBP 2011	237,763	–	8,872	–	–	246,635	1/8/2014	198.83p	–	–
DBP 2012	–	224,265	8,368	–	–	232,633	1/8/2015	202.26p	–	–
G Patterson										
DBP 2009	105,651	–	–	105,651	–	–	1/8/2012	128.41p	217.98p	230
DBP 2010	296,813	–	11,075	–	–	307,888	1/8/2013	134.26p	–	–
DBP 2011	254,051	–	9,480	–	–	263,531	1/8/2014	198.83p	–	–
DBP 2012	–	227,311	8,482	–	–	236,793	1/8/2015	202.26p	–	–

^a Awards granted on 20 June 2012. 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.

Share awards under long-term incentive schemes held at 31 March 2013

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

	1 April 2012	Awarded	Dividends re-invested	Vested	Lapsed	Total number of award shares 31 March 2013	Performance period end	Price at grant	Market price at vesting	Monetary value of vested award £000
I Livingston										
ISP 2009	2,222,929	–		2,222,929	–	–	31/3/2012	128.41p	207.7p ^a	4,617
ISP 2010 ^b	1,828,431	–	68,230	–	–	1,896,661	31/3/2013	134.26p	277p	5,254
ISP 2011 ^c	1,213,049	–	45,266	–	–	1,258,315	31/3/2014	198.83p	–	–
ISP 2012 ^d	–	1,143,292	42,663	–	–	1,185,955	31/3/2015	202.26p	–	–
T Chanmugam										
ISP 2009	1,035,186	–		1,035,186	–	–	31/3/2012	128.41p	207.7p ^a	2,150
ISP 2010 ^b	772,003	–	28,808	–	–	800,811	31/3/2013	134.26p	277p	2,218
ISP 2011 ^c	561,280	–	20,944	–	–	582,224	31/3/2014	198.83p	–	–
ISP 2012 ^d	–	529,004	19,740	–	–	548,744	31/3/2015	202.26p	–	–
G Patterson										
ISP 2009	1,089,668	–		1,089,668	–	–	31/3/2012	128.41p	207.7p ^a	2,263
ISP 2010 ^b	812,635	–	30,325	–	–	842,960	31/3/2013	134.26p	277p	2,335
ISP 2011 ^c	598,000	–	22,315	–	–	620,285	31/3/2014	198.83p	–	–
ISP 2012 ^d	–	563,612	21,031	–	–	584,643	31/3/2015	202.26p	–	–

^a 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. Awards vested in full on 14 May 2012.

^b 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 market price at vesting is an estimate of the value using the average closing market share price for the 3 month period 1 February to 30 April 2013 of 277p. The award will vest in full in May 2013.

^c Awards granted on 27 June 2011. The number of shares subject to awards was calculated using the average middle market price of a BT share for the three days prior to grant. 40% of each award is linked to TSR compared with a group of 25 companies, 40% is linked to a three-year adjusted cumulative free cash flow measure and 20% to a measure of underlying revenue growth (excluding transit) over three years.

^d Awards granted on 20 June 2012. The number of shares subject to awards was calculated using the average middle market price of a BT share for the three days prior to grant. 40% of each award is linked to TSR compared with a group of 25 companies, 40% is linked to a three-year normalised cumulative free cash flow measure and 20% to a measure of underlying revenue growth (excluding transit) over three years.

Share options held at 31 March 2013

	Number of shares under option				31 March 2013	Option price per share	Market price at date of exercise	Usual date from which exercisable	Usual expiry date
	1 April 2012	Granted	Lapsed	Exercised					
Sir Michael Rake	12,110 ^a	–	–	12,110 ^a	–	68p	218.8p ^b	1/8/2012	1/2/2013
	1,485 ^c	–	–	–	1,485	104p		1/8/2016	1/2/2017
I Livingston	12,110 ^a	–	–	12,110 ^a	–	68p	218.8p ^b	1/8/2012	1/2/2013
	769 ^c	–	–	–	769	104p		1/8/2016	1/2/2017
T Chanmugam	37,384 ^d	–	–	–	37,384	192p		24/6/2007	24/6/2014
	12,110 ^a	–	–	12,110 ^a	–	68p	237.6p ^e	1/8/2012	1/2/2013
G Patterson	98,178 ^d	–	–	–	98,178	192p		24/6/2007	24/6/2014
Total	174,146	–	–	–	137,816				

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 exercised on 1 August 2012. Closing market price for information. Shares were retained after exercise of options.

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

^d 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.

^e Options exercised on 27 December 2012. Closing market price for information. Shares were retained after exercise of options.

The market price of BT shares at 31 March 2013 was 278p (2012: 226.4p) and the range during the year was 200.7p – 281p (2012: 161.0p – 232.1p).

Pensions

The BT Pension Scheme (BTPS) closed to new entrants on 31 March 2001. None of the executive directors participate in future service accrual in the BTPS. Tony Chanmugam has deferred benefits in the BTPS. Executive directors who have been members of the BTPS also benefit from a death in service lump sum of four times salary.

The principal pension scheme open to the majority of new employees is the BT Retirement Saving Scheme (BTRSS). The BTRSS is a group personal pension plan and is a qualifying pension scheme under new auto enrolment legislation which applied to BT with effect from 1 November 2012 (the Staging date). Certain subsidiaries have separate pension arrangements with alternative Staging dates commencing in September 2013 through to 2017. 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 have never been members of the BTPS benefit from a death in service lump sum of four times salary and a dependant's pension of 30% of capped salary.

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 in lieu of pension provision as set out in the table on page 88. BT also provides him with a death in service lump sum benefit of four times his salary.

Tony Chanmugam is not a contributing member of the company pension schemes, but the company has agreed to pay him an annual amount equal to 30% of salary in lieu of pension provision as set out in the table on page 88. BT also provides him with a death in service lump sum benefit of four times his salary.

Gavin Patterson receives an annual amount equal to 30% of salary in lieu of pension provision as set out in the table on page 88. Gavin is a member of the BTRSS but has made no contributions to the scheme during 2012/13. 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 Tony Chanmugam's BTPS benefits, which result from revaluation of his deferred benefits in line with the rules of the scheme. Tony Chanmugam did not accrue any additional pension over the financial year and no other contributions were made.

Increases in pension benefits at 31 March 2013

	2013 £000 ^a	Accrued pension 2012 £000 ^b	Transfer value of accrued benefits		Change in transfer value c-d less director's contributions 2013 £000	Additional accrued benefits earned in the year 2013 £000 ^e	Transfer value of accrued benefits in e less director's contributions 2013 £000 ^f
			2013 £000 ^c	2012 £000 ^d			
T Chanmugam ^g	204	202	4,588	4,650	(62)	–	–

^{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 2013 and 2012, respectively.

^c Transfer value of the deferred pension in column (a) as at 31 March 2013 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 2012 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 2013 were £nil (2012: £nil).

Share awards under the Employee Share Investment Plan (ESIP) at 31 March 2013

	Total number of shares at 31 March 2013
I Livingston	363
T Chanmugam	679
G Patterson	247

During the year no awards were made under the ESIP.

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

Former directors

Sir Peter Bonfield received under pre-existing arrangements, a pension of £443,435 in 2012/13 (2011/12: £423,125).

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

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.

Rt Hon Patricia Hewitt

Chair of the Remuneration Committee

9 May 2013