Report on Directors' Remuneration


Tony Ball

Review of the year

I became the Chairman of the *Remuneration Committee* in March 2014 following the retirement of Patricia Hewitt. I would like to offer my thanks to Patricia for her leadership and contribution during the time she was chair of the committee.

As a committee, we consider that the basic remuneration principles remain appropriate and fundamentally fit for purpose; namely that base salaries are positioned below median against our comparator group, and a significant proportion of total remuneration is variable and performance related. We consider that this policy has helped drive the strong performance that the company has delivered in recent years.

Nevertheless, as part of our ongoing dialogue with shareholders, a regular feedback theme has been that we should review the balance between the short-term and long-term elements of remuneration. The committee considered this feedback and felt that the time was right to make a change as we shift our focus towards our goal of delivering sustainable, profitable revenue growth in addition to continuing our focus on cost transformation.

In this context, upon the appointment of Gavin Patterson as Chief Executive in September 2013, we took the opportunity to make a number of changes to the remuneration structure for the Chief Executive role. These changes resulted in a reduction in total remuneration for Gavin relative to his predecessor's arrangements, particularly at on-target performance, while significantly shifting the balance of opportunity from short-term to long-term achievement. To maintain alignment within our executive team, we have subsequently extended this re-balancing to the Group Finance Director's remuneration arrangements. The changes are also being cascaded further down the company, to ensure that remuneration arrangements for all senior executives are aligned to the same corporate goals.

In summary, the changes represent:

- a significant reduction in opportunity under the annual bonus, particularly for on-target performance. As a result, there is a reduction in the amount of the package delivered in short-term cash;
- an increase in the Incentive Share Plan (ISP) element – this reflects the greater emphasis we wish to place on sustained, long-term performance;
- for the Chief Executive, a significant reduction in remuneration opportunity for on target performance and the maximum opportunity has been reduced slightly; and
- for the Group Finance Director, an overall reduction to his on target opportunity, however, there has been an increase to his base salary and to the maximum opportunity to ensure his total package remained around the same value. We did not feel a significant reduction for the Group Finance Director was appropriate given his position against the market remains below median and given his tenure and performance in the role.

We believe that these restructured packages will incentivise and reward our executive directors to deliver long-term, sustainable profitable revenue growth, in line with our business strategy and shareholder interests, without encouraging inappropriate risk-taking.

In considering the leaving terms for Ian Livingston, we took into account the unique circumstances of his departure. In particular, the committee noted that Ian was not pursuing another commercial opportunity and was taking a role in the national interest. Ian did not leave due to poor performance and, indeed, in reflecting on Ian's five-year tenure as Chief Executive the committee recognised the transformation of the company under his leadership and the foundation that Ian provided for future growth.

As a result, the committee considered it appropriate for Ian's unvested deferred bonus shares, earned for performance over his tenure, to be released in full. In addition, given that Ian had been in role for the majority of the 2011 ISP award performance period, and taking into account the strong company and individual performance during this period, the committee determined that this award should be pro-rated for time and tested for performance upon his departure. All other ISP awards were lapsed in full, which at the date of lapse represented over £9m of potential value forfeited. More detail is set out on page 96.

Outcomes for the year

The company delivered a strong financial performance for the year. Adjusted earnings per share increased 7%, normalised free cash flow was higher than our outlook for the year, and underlying revenue excluding transit grew by 0.5%. Although there was an improved trend on revenue growth, the ISP revenue target was not reached.

For annual bonus purposes, the company performed well against the financial targets, although the customer service target was not met. As a result the annual bonus for the Chief Executive was 68% of maximum. In keeping with past practice, part of the annual bonus is deferred for three years and paid in shares.

Further information on annual bonus is set out on page 93

During the three-year performance cycle just ended for the ISP, shareholders have experienced a 139% Total Shareholder Return (TSR) and when combined with very positive cash flow performance, the ISP 2011 vested at 78.7% of maximum, compared to 100% last year, reflecting the level of stretch in the targets the committee set in 2011. More information on ISP vesting is set out on page 94.

Total remuneration for the year is summarised in the single figure table on page 93

Our employees are also sharing in BT's improved performance. Over 22,000 individuals who invested in our five-year SAYE plan, with an option price of 61p, are currently expected to make significant gains in the summer of 2014 when these options mature.

Looking ahead

As outlined above, we have responded to feedback from our shareholders and re-balanced our remuneration framework to drive long-term, sustainable profitable revenue growth, in line with our business strategy and shareholder interests, whilst being mindful not to encourage inappropriate risk-taking. For 2014/15, executive directors' pay arrangements will be structured in line with this re-balanced framework.

We have made two further changes to increase the alignment of our pay framework with shareholders' interests:

- *Holding period* – For ISP awards made in 2014 onwards, executive directors will be required to hold the net shares received on vesting following payment of tax and other statutory deductions for two years, following the end of the three-year performance period.
- *Increase to shareholding guidelines* – For 2014/15, our shareholding guideline for the Chief Executive has been increased from 200% to 300% of salary.

In terms of base salary, we aim to position executive directors below median against our comparator group. In recognition of the exceptional support and stability which Tony Chanmugam provided during the transition of the Chief Executive, the committee considered that an increase of Tony's salary to £600,000 during the year was appropriate (from £550,000). Subsequently, as part of our re-balancing of the remuneration framework, and within the context of the overall reduction in his target remuneration opportunity, the committee wished to recognise Tony's continued strong performance during the year and the stability which he brings to the company at this time. As such, Tony's salary will increase to £630,000 per annum, effective June 2014, which remains well below median when compared to similar roles in comparable companies.

Gavin Patterson will receive a salary increase to £950,000 per annum (from £925,000), effective June 2014, an increase of 2.7%. This is within the mid-range of pay awards for our managerial and technical specialist population (around 23,000 people). Pay awards for the majority of this population are agreed through consultation and collective bargaining with the Prospect trade union.

The committee has continued to maintain the link between pay and performance and our policy report sets out our continuing philosophy for the next three years.

Tony Ball
Chairman of the Remuneration Committee
7 May 2014

Annual Remuneration Report

This part of the Report is a summary of key elements of our directors' remuneration in 2013/14.

Single figure remuneration

The following sets out the full review of directors' emoluments, including bonus and deferred bonus, and long-term incentive plans and pension arrangements.

Directors' emoluments (audited)

Directors' emoluments for the financial years 2013/14 and 2012/13 are set out in the table below. This information has been audited.

	Basic salary and fees (2013/14) £000	Basic salary and fees (2012/13) £000	Benefits excluding pension[a] (2013/14) £000	Benefits excluding pension[a] (2012/13) £000	Annual Bonus[b] (2013/14) £000	Annual Bonus (2012/13) £000	ISP[c] (2013/14) £000	ISP[d] (2012/13) £000	Pension allowance net of pension contributions[e] (2013/14) £000	Pension allowance net of pension contributions[e] (2012/13) £000	Total 2013/14 £000	Total 2012/13 £000
Sir Michael Rake	**650**	650	**30**	21	**–**	–	**–**	–	**–**	–	**680**	671
G Patterson	**772**	570	**43**	29	**1,302**	956	**1,945**	2,575	**188**	171	**4,250**	4,301
T Chanmugam	**573**	535	**32**	25	**1,202**	954	**1,826**	2,446	**172**	161	**3,805**	4,121
T Ball	**82**	79	**–**	–	**–**	–	**–**	–	**–**	–	**82**	79
P Hodkinson	**154**	156	**–**	–	**–**	–	**–**	–	**–**	–	**154**	156
K Richardson[f]	**79**	75	**18**	14	**–**	–	**–**	–	**–**	–	**97**	89
N Rose	**112**	105	**–**	–	**–**	–	**–**	–	**–**	–	**112**	105
J Whitbread	**84**	82	**–**	–	**–**	–	**–**	–	**–**	–	**84**	82
W East[g]	**11**	0	**–**	–	**–**	–	**–**	–	**–**	–	**11**	–
Sub-total	**2,517**	2,252	**123**	89	**2,504**	1,910	**3,771**	5,021	**360**	332	**9,275**	9,604
Former directors												
I Livingston[h]	**769[i]**	925	**13**	21	**578**	2,392	**3,047**	5,794	**135**	270	**4,542**	9,402
P Hewitt[j]	**160**	160	**–**	–	**–**	–	**–**	–	**–**	–	**160**	160
Total	**3,446**	3,337	**136**	110	**3,082**	4,302	**6,818**	10,815	**495**	602	**13,977**	19,166

[a] Benefits include some or all of the following: company car (or monthly cash allowance in lieu of a car or part of such allowance not used for a 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.
[b] Annual bonus shown includes both the cash and deferred share element. The deferred element of bonus includes the value of deferred shares to be granted in June 2014. Further details of the deferred element are set out below.
[c] Value shown represents the estimated value of ISP award, granted in June 2011 that are expected to vest in May 2014. The estimate is based on a three-month average share price from 1 February 2014 to 30 April 2014 of £3.8751. Further details are provided on page 94.
[d] Vesting of ISP 2010 granted in June 2010 and vested in May 2013 at a share price of £3.055.
[e] Pension allowance paid in cash for the financial year – see 'Total pension entitlement' on page 95.
[f] Includes an additional fee for regular travel to Board and Board committee meetings.
[g] Warren East was appointed as a director on 1 February 2014.
[h] Ian Livingston retired as a director on 10 September 2013.
[i] In accordance with his contract, Ian Livingston received a payment of £306,831 representing three months' salary and benefits, which is included in this amount. Further details of remuneration payments to Ian Livingston are set out on page 96.
[j] Patricia Hewitt retired as a director on 23 March 2014.

Additional disclosures relating to the single figure table

Salaries

Gavin Patterson's salary was reviewed in September 2013 when he took the role of Chief Executive. Gavin's salary was increased to £925,000 per annum, the same salary that Ian Livingston received for that role. This was in the context of an overall reduction in on-target remuneration, relative to Ian. The total reward positions Gavin in the lower half of the pay range of CEOs of companies of a similar size and complexity.

During the year, Tony Chanmugam's salary was increased to £600,000 per annum. The committee's remuneration principle is to position executive salaries at below median against our comparator group. During the transition of the Chief Executive, Tony provided exceptional support and stability to the company, and we considered that Tony's performance merited recognition. As such, given that Tony's salary had fallen significantly behind the market, the committee considered that the increase was appropriate, noting that the new salary was still below the mid-market position.

Benefits

Benefits provided to executive directors and the Chairman include company car, fuel or driver, personal telecommunication 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.

Annual bonus

Executive directors were eligible for an annual bonus based on: corporate financial performance targets; customer service; Environmental, Social and Governance (ESG) measures; and individual targets. The customer service element of the annual bonus is paid only if a minimum adjusted EPS threshold is achieved. The annual bonus is paid in two elements, a cash element, and a deferred element awarded in shares.

Concurrent with Gavin Patterson's appointment to the role of Chief Executive, we changed the structure of the annual bonus element of the Chief Executive's remuneration, reducing the bonus opportunity at both target and maximum performance for short-term performance.

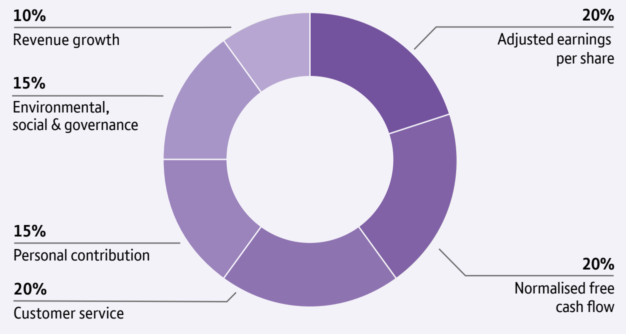
The Chief Executive's bonus opportunity reduced from 250% of salary at target to 120% of salary, and from 400% of salary at maximum to 240% of salary. Gavin Patterson's bonus in 2013/14 was pro-rated to reflect his time in the Chief Executive role and his previous role as CEO, BT Retail. The bonus weightings for the two roles are described on page 94.

The long-term incentive element was increased at the same time as set out on page 91.

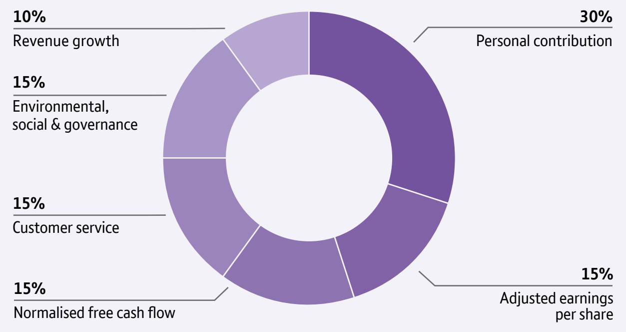
The bonus opportunity for the Group Finance Director (GFD) of 175% of salary at target and 262.5% of salary at maximum was unchanged in the year.

The weighting of the annual bonus structure is set out below.

Chief Executive and Group Finance Director
% Weighting



CEO, BT Retail
% Weighting



The table below provides an overview of performance against the targets for the 2013/14 annual bonus.

Measure	Threshold	Target	Maximum	Outcome	Result % of max
Adjusted EPS (p)[a]	25.5	26.8	28.8	28.2	85%
Normalised free cash flow £m[b]	2,258	2,378	2,556	2,450	70%

[a] Adjusted EPS is defined on page 61.
[b] Normalised free cash flow is defined on page 61.

Strong progress was made during the year. Adjusted EPS increased 7% to 28.2p, and normalised free cash flow was £150m above 2012/13.

We set high aspirations for our customer service performance and during the year made positive early progress towards those goals. However, due to a series of circumstances, and in particular, the unprecedented flooding across the country and the pressure on our contact centres following the launch of BT Sport, we did not make the progress that we aspired to. As a consequence, the Chief Executive proposed to the committee that he forgo any bonus in relation to customer service performance. The committee welcomed this proposal and, accordingly, no bonus was paid to the Chief Executive in respect of customer service performance. Further information on customer service is set out on page 61.

The Chairman assessed the Chief Executive, and the Chief Executive assessed the Group Finance Director on ESG and personal contribution targets. Assessment is based on a number of factors including BT's regular employee surveys, organisational health, culture and performance against personal objectives. The Chief Executive achieved 60% of the maximum opportunity on his personal objective element and 75% of the maximum opportunity on the ESG measure. On the personal element, BT Consumer grew revenue 4% in 2013/14, the most in over ten years. BT Global Services consolidated the position as a global leader for managed networked IT services, with an order intake of £6.9bn. The Chairman assessed the quality and delivery of our TV service and proposition.

In respect of assessment of the ESG element, BT achieved top quartile improvement in organisational health, with employee engagement, senior management perception, and other key indicators at their highest ever level across the company.

The Group Finance Director achieved 85% of the maximum opportunity on his personal objective outcome and 75% of the maximum opportunity on the ESG measure. On the personal element, the Group Finance Director delivered strong financial performance, maintained focus on the BT Global Services business, managed our location and property strategy and disposed of the interest of Tech Mahindra.

For the ESG element, he has mentored a number of people within the group, exhibited strong values and commitment in the ESG area, and during the year he joined the CSRB reflecting his personal commitment to sustainable and responsible business.

The trend in underlying revenue excluding transit was up 0.5% compared with the decline of 3.1% in the prior year. Further information on underlying revenue can be found on page 60. The revenue growth measure outcome was 95% of the maximum opportunity.

For both the Chief Executive and Group Finance Director, bonus is delivered in both cash and a deferred element awarded in shares. Once granted, deferred shares are not subject to any further performance conditions, and will normally be transferred to participants at the end of the three-year deferred period if the participant is still employed by the BT group.

Gavin Patterson's annual bonus, paid both in cash and in the award of deferred shares represented 168.6% of the pro-rata salary used to calculate his bonus (2012/13: 167%) and 68.1% of the maximum bonus opportunity (2012/13: 64%). 62.8% of the annual bonus was paid in cash and 37.2% will be granted in deferred shares in June 2014.

Tony Chanmugam's annual bonus, paid both in cash and in the award of deferred shares represented 209.1% of his pro-rata salary (2012/13: 178%) and 79.7% of the maximum opportunity (2012/13: 68%). 57.1% of the annual bonus was paid in cash and 42.9% will be granted in deferred shares in June 2014.

Bonus award and proportion of value

Element of bonus	Gavin Patterson	Tony Chanmugam
Adjusted EPS	23.74%	24.42%
Normalised free cash flow	19.69%	20.25%
Revenue growth	14.63%	13.60%
Customer service	0%	7.20%
ESG	20.19%	16.18%
Personal contribution	21.75%	18.35%

Ian Livingston received a pro-rated cash bonus reflecting his service during the year. Further details of payments to Ian are set out on page 96.

Incentive share plan

The ISP 2011 is due to vest in May 2014. The performance conditions are based 40% on relative TSR, 40% on adjusted free cash flow, and 20% on growth in underlying revenue (excluding transit) over a three-year performance period.

TSR

The TSR element is measured against a comparator group containing other telecommunications companies and companies which are of a similar size or market capitalisation and/or have a similar business mix and spread as BT or operate in comparable markets.

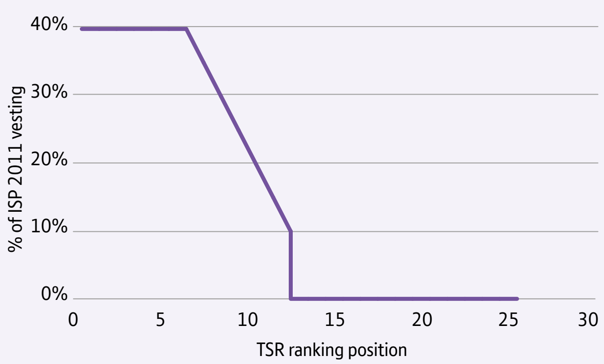
The TSR comparator group for the ISP 2011 comprised the following companies:

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

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 price 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 final values indicates growth in TSR.

The following graph shows the vesting schedule for the TSR element of the 2011 ISP awards.

TSR vesting schedule 2011 Awards



The company's shares achieved a TSR performance of 139%. This was 2nd out of 25 companies during the three-year period and resulted in 40% (out of 40%) of the ISP award that related to the TSR element vesting.

Adjusted free cash flow

When we set the performance measures for the ISP 2011, the threshold for three-year cumulative free cash flow was £6.75bn, which had to be achieved before any shares would vest. A further performance range of £1bn was set above this to £7.75bn, 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 achieved a cumulative three-year adjusted free cash flow outcome of £7.7bn which resulted in 38.7% (out of 40%) of the ISP award that related to the cash flow element vesting.

Revenue growth

A measure for sustainable revenue growth was added to the ISP to reflect the Board's aim to drive profitable revenue growth. The measure was based on growth in underlying revenue excluding transit measured against the baseline of 2010/11, with the threshold set as growth of 2%.

The challenging revenue environment, representing regulation and tough economic conditions, resulted in the threshold targets for revenue growth not being met. Accordingly this element did not vest.

Overall vesting of ISP 2011

The performance in the TSR and adjusted free cash flow resulted in a 78.7% vesting of the ISP 2011. The number of shares due to vest under the ISP 2011, in May 2014, is set out below. An estimate of the cash value of the shares vesting is shown in the single figure table on page 93.

Director	Vesting of free cash flow element (£000)	Value of TSR element (£000)	Total value of ISP Vesting (£000)[a]	ISP Vesting (Shares)
Gavin Patterson	957	988	1,945	502,047
Tony Chanmugam	898	928	1,826	471,217

[a] An estimate based on the three-month average share price from 1 February 2014 to 30 April 2014 of £3.8751.

Ian Livingston stepped down as Chief Executive in September 2013 to join the Government as Minister of State for Trade and Investment. In respect of the ISP 2011 awards, the committee considered that Ian had served for the majority of the performance period (1 April 2011 to 10 September 2013), during which the company had performed strongly and, accordingly, would exercise its discretion, and allow pro-rata vesting of the ISP 2011. Following the committee's review, 812,784 shares vested on 6 November 2013. Details of the committee's treatment of Ian Livingston's outstanding awards are set out on page 93.

Total pension entitlements

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, and who retain deferred benefits in 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 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 have never been members of the BTPS benefit from death in service cover that would provide a 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 for him. BT provides him with a lump sum death in service benefit of £1m.

Gavin Patterson receives an annual allowance equal to 30% of salary in lieu of pension provision as set out in the table on page 93. Gavin has previously been a member of the BTRSS but neither he nor the company has made any contribution to the scheme during 2013/14. BT also provides death in service cover of a lump sum of four times his salary plus a widow's pension of 30% of his capped salary.

Tony Chanmugam is not a contributing member of any of the company pension schemes; he did not accrue any BTPS pension over the financial year and no other contributions were made. 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 93. The BTPS deferred benefit is payable from his 60th birthday. BT provides death in service cover of a lump sum of four times his salary which would cease if his BTPS benefits were put into payment.

Awards granted during the year

ISP 2013 Awards

The ISP 2013 awards were made in June 2013 as set out below and on page 99. The awards to Gavin Patterson and Tony Chanmugam represented 200% of their salary, and the award for Ian Livingston represented 250% of his salary. An additional ISP award was made to Gavin Patterson in November 2013 following his appointment as Chief Executive to ensure that his overall ISP 2013 award reflected his pro-rated salary and ISP opportunity over the full year across the two roles. The performance conditions for this award were the same as for the main ISP 2013 award.

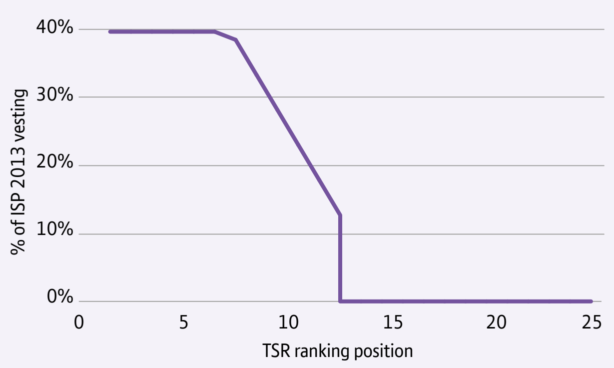
Director	Date of award	ISP award (shares)	Face value of award[a]
Gavin Patterson	20 June 2013 12 November 2013	361,904 375,906	£1,139,998 £1,398,370
Tony Chanmugam	20 June 2013	339,682	£1,069,998
Ian Livingston	20 June 2013	734,126	£2,312,497

[a] Face value based on share price at the date of grant, being £3.15 for grants on 20 June 2013 and £3.72 for the grant on 12 November 2013.

Ian Livingston retired as a director on 10 September 2013 and his ISP 2013 award lapsed. Further details are set out opposite.

The performance conditions were based 40% on relative TSR, 40% on normalised free cash flow, and 20% on growth in underlying revenue excluding transit over a three-year performance period from 1 April 2013 to 31 March 2016. The performance conditions are the same for each director. The target range for TSR; the normalised free cash flow element for the three-year performance period 2013/14 – 2015/16; and underlying revenue growth excluding transit is set out in the table below.

TSR level of vesting



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[b] growth	1%	25%	4%	100%

[a] Vesting levels between threshold and maximum will be on a straight line basis.
[b] Underlying revenue excluding transit.

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 were established at above consensus market expectations at the time set.

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 final values indicates growth in TSR.

The TSR comparator group for the ISP 2013 awards was the same for awards granted in June 2012 and June 2011 except for the removal of Cable & Wireless Worldwide which was acquired by Vodafone.

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

Deferred shares

A proportion of the 2012/13 annual bonus was awarded in deferred shares. The table below provides further details.

Director	Date of award	DBP award (shares)	Face value on award[a]
Gavin Patterson	20 June 2013	130,057	£409,680
Tony Chanmugam	20 June 2013	129,805	£408,886
Ian Livingston	20 June 2013	379,639	£1,195,863

[a] Face value based on share price at the date of the award of £3.15.

The deferred shares are not subject to further performance conditions and normally vest in three years if the individual is still employed by the BT Group. Details of all interests in deferred shares is set out on page 98.

Former directors

Sir Peter Bonfield received, under pre-existing arrangements, a pension of £457,181 in 2013/14 (2012/13: £443,435).

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 £10,000.

Payments for loss of office

Ian Livingston stepped down as Chief Executive in September 2013 to join the Government as Minister of State for Trade and Investment. Before taking this new role, Ian was required by the Ministerial Code to cease all ties with BT, to "avoid any danger of an actual or perceived conflict of interest".

The committee therefore reviewed the awards granted to Ian under the Deferred Bonus Plan (DBP) and ISP. The circumstances of Ian's departure were unique; he was not pursuing another commercial opportunity (the ministerial post is unremunerated), he was acting in the national interest and he was not leaving due to poor performance.

The committee reflected on Ian's five year tenure as Chief Executive, the transformation of the company under his leadership, and the investment for the future that he led.

Given this strong performance, the committee considered it appropriate that the deferred bonus shares which he has earned over this period should be released to him. The committee therefore agreed that the deferred elements of Ian's bonuses over the past three years would vest in full upon cessation of his employment.

Ian's 2011 ISP award was based on a performance period of April 2011 to March 2014. Taking into consideration the strong company and individual performance during the performance period up to Ian's departure date, close to the end of the ISP 2011 performance period, his 2011 ISP award was pro-rated to the end of his service after assessing the extent to which the stretching performance conditions were met. In order to comply with the terms of the Ministerial Code, the shares vested on his last day of service, 10 September 2013. Accordingly, the committee applied a discount equivalent to 5% per annum, to reflect the early vesting. The committee entered into an agreement with Ian Livingston, providing that if the committee later became aware of any facts which would have resulted in a lower level of vesting, that he would transfer to the company such shares (or cash equivalent) as the committee determines. The committee determined that Ian's 2012 and 2013 ISP awards should lapse in full. These forfeited awards could have represented over 2.4m shares, with a value of up to £9.1m at the date of lapse.

Ian received salary and contractual benefits in lieu of a three-month notice period in the amount of £306,831. This was less than that to which he was contractually entitled. He also received a part-year cash bonus for the period of his actual service during the year as shown in the table on page 93.

Directors' 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.

To increase the alignment between shareholders and executive directors, the committee increased the share ownership required. The Chief Executive is required to build up a shareholding value equal to 300% of salary (up from 200%) and the Group Finance Director 150% of salary. They 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 purchases in the market.

At 31 March 2014, both the executive directors had met the shareholding requirements, as set out in the table below:

Executive Director	Personal shareholding as a percentage of salary
Gavin Patterson	442%
Tony Chanmugam	326%
Ian Livingston[a]	855%

[a] As at 10 September 2013.

The following table shows the total unvested interests held by the executive directors in the ISP and DBP. The numbers represent the maximum possible vesting levels. The ISP awards will only vest to the extent the performance conditions are met over a three-year period. Full details of all ISP and DBP awards, including performance periods and vesting conditions, are set out on pages 98 to 99.

	ISP (subject to performance)		DBP (not subject to performance)	
	1 April 2013	31 March 2014	1 April 2013	31 March 2014
Gavin Patterson	2,047,918	1,990,379	807,212	647,163
Tony Chanmugam	1,931,779	1,512,207	771,761	626,283
Ian Livingston[a]	4,340,931	0	2,476,117	0

[a] Ian Livingston retired on 10 September 2013. Details of Ian Livingston's ISP and DBP awards are set out on page 96.

The following table shows share options held by the directors. As at 31 March 2014 none of the directors held share options with performance conditions.

Share options held without performance conditions (saveshare)

	1 April 2013	Awarded during year	Exercised during year	Value at date of exercise	31 March 2014
Sir Michael Rake	1,485	–	–	–	1,485
Tony Chanmugam	–	6,024	–	–	6,024
Ian Livingston[a]	769	–	–	–	–

[a] Ian Livingston's interest lapsed on his departure on 10 September 2013.

No Saveshare options were exercised by the directors during the year.

Directors' interests at 31 March 2014 or date of retirement, if earlier (audited)

The next section of the report has been audited.

The beneficial interests of directors holding office at the end of the year, and their families, in the company's shares at 31 March 2014 and 1 April 2013, or at date of appointment if later, are shown below:

	Number of shares	
Beneficial holdings	2014	2013
Sir Michael Rake	130,156	129,418
G Patterson[a]	1,692,387	1,060,557
T Chanmugam[a]	774,925	543,318
I Livingston[b]	3,396,419	2,391,549
T Ball	22,561	21,950
W East[c]	2,480	–
P Hewitt[d]	19,251	18,234
P Hodkinson	25,263	22,857
N Rose	50,000	50,000
K Richardson[e]	7,750	3,000
J Whitbread	6,790	5,190
Total	6,127,982	4,246,073

[a] Includes free shares awarded under directshare.
[b] Ian Livingston retired on 10 September 2013 and reflects his holding at that date.
[c] Warren East joined the Board on 1 February 2014.
[d] Patricia Hewitt retired on 23 March 2014 and reflects her holding at that date.
[e] Shares are held as 775 American Depositary Shares (ADS). One ADS equates to 10 BT Group plc ordinary shares.

During the period from 1 April 2014 to 7 May 2014, there were no movements in directors' beneficial holdings.

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

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

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Deferred Bonus Plan awards at 31 March 2014 (audited)

The following DBP 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.

	01/04/2013	Awarded[a]	Dividends re-invested	Vested	Lapsed	Total number of award shares 31/03/2014	Vesting date	Price at grant	Market price at vesting	Monetary value of vested award £000
G Patterson										
DBP 2010	307,888	–	–	307,888	–	–	1/8/2013	134.26p	336.5p	1,036
DBP 2011	263,531	–	7,446	–	–	270,977	1/8/2014	198.83p	–	–
DBP 2012	235,793	–	6,662	–	–	242,455	1/8/2015	202.26p	–	–
DBP 2013	–	130,057	3,674	–	–	133,731	1/8/2016	315.00p	–	–
T Chanmugam										
DBP 2010	292,493	–	–	292,493	–	–	1/8/2013	134.26p	336.5p	984
DBP 2011	246,635	–	6,969	–	–	253,604	1/8/2014	198.83p	–	–
DBP 2012	232,633	–	6,574	–	–	239,207	1/8/2015	202.26p	–	–
DBP 2013	–	129,805	3,667	–	–	133,472	1/8/2016	315.00p	–	–
Former director										
I Livingston[b]										
DBP 2010	1,016,608	–	–	1,016,608	–	–	1/8/2013	134.26p	336.5p	3,421
DBP 2011	770,089	–	14,800	784,889	–	–	6/11/2013	198.83p	374.9p	2,943
DBP 2012	689,420	–	13,250	702,670	–	–	6/11/2013	202.26p	374.9p	2,634
DBP 2013	–	379,639	7,296	386,935	–	–	6/11/2013	315.00p	374.9p	1,451

[a] Awards granted on 20 June 2013. 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, being £3.15. Awards of deferred shares in respect of 2014 will be calculated using the average middle market price of a BT share for the three days prior to grant.

[b] Ian Livingston retired from the Board on 10 September 2013. The awards vested as set out on page 96.

Share awards under long-term incentive schemes held at 31 March 2014 (audited)

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

	01/04/2013	Awarded	Dividends re-invested	Vested	Lapsed	Total number of award shares 31/03/2014	Performance period end	Price on grant	Market price at vesting	Monetary value of vested award £000
G Patterson										
ISP 2010[a]	842,960	–		842,960	–	–	31/3/2013	134.26p	305.5p	2,575
ISP 2011[b]	620,315	–	17,530	–	–	637,845	31/3/2014	198.83p	387.5p	1,945
ISP 2012[c]	584,643	–	16,521	–	–	601,164	31/3/2015	202.26p	–	–
ISP 2013[d]	–	361,904	10,226	–	–	372,130	31/3/2016	315.00p	–	–
ISP 2013[e]	–	375,906	3,334	–	–	379,240	31/3/2016	372.00p	–	–
T Chanmugam										
ISP 2010[a]	800,811	–		800,811	–	–	31/3/2013	134.26p	305.5p	2,446
ISP 2011[b]	582,224	–	16,452	–	–	598,676	31/3/2014	198.83p	387.5p	1,826
ISP 2012[c]	548,744	–	15,507	–	–	564,251	31/3/2015	202.26p	–	–
ISP 2013[d]	–	339,682	9,598	–	–	349,280	31/3/2016	315.00p	–	–
Former director										
I Livingston[f]										
ISP 2010[a]	1,896,661	–		1,896,661	–	–	31/3/2013	134.26p	305.5p	5,794
ISP 2011[b]	1,258,315	–	24,184	812,784	469,715	–	31/3/2014	198.83p	374.9p	3,047
ISP 2012[c]	1,185,955	–	22,793	–	1,208,748	–	31/3/2015	202.26p	–	–
ISP 2013[d]	–	734,126	14,109	–	748,235	–	31/3/2016	315.00p	–	–

[a] 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 grant of 134.26p. 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 13 May 2013.

[b] 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 of 198.83p. 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 growth in underlying revenue (excluding transit) over three years. The market price at vesting is an estimate of the value using a three-month average share price from 1 February 2014 to 30 April 2014 of £3.8751. The award will vest at 78.7% of the total number of award shares in May 2014. The award vested for Ian Livingston on 6 November 2013 at 374.9p, as set out on pages 94 and 96.

[c] 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 of 202.26p. 40% of each award is linked to TSR compared with a group of 25 companies, 40% is linked to a three-year normalised free cash flow measure and 20% to a measure of growth in underlying revenue (excluding transit) over three years.

[d] Awards granted on 20 June 2013. 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 of 315.00p. 40% of each award is linked to TSR compared with a group of 24 companies, 40% is linked to a three-year normalised free cash flow measure and 20% to a measure of growth in underlying revenue (excluding transit) over three years.

[e] Award granted on 12 November 2013 following appointment as Chief Executive. 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 of 372.00p. 40% of each award is linked to TSR compared with a group of 24 companies, 40% is linked to a three-year normalised free cash flow measure and 20% to a measure of growth in underlying revenue (excluding transit) over three years.

[f] Ian Livingston retired from the Board on 10 September 2013 and details of the ISP 2011 award vesting and the ISP 2012 and ISP 2013 awards lapsing are set out on page 96.

Share options held at 31 March 2014 (audited)

	Number of shares under option								
	01/4/2013	Granted	Lapsed	Exercised	31/03/2014	Option price per share	Market price at date of exercise	Usual date from which exercisable	Usual expiry date
Sir Michael Rake	1,485[a]	–	–	–	1,485	104p	–	1/8/2016	1/2/2017
Gavin Patterson	98,178[b]	–	–	98,178[c]	–	192p	335p	24/6/2007	24/6/2014
Tony Chanmugam	37,384[b]	–	–	37,384[e]	–	192p	395p	24/6/2007	24/6/2014
	–	6,024[d]	–	–	6,024	249p		1/8/2018	1/2/2019
Total	**137,047**	**6,024**	**–**	**135,562**	**7,509**				
Former director									
Ian Livingston	769[f]	–	769	–	–	104p	–	1/8/2016	1/2/2017

All of the above options were granted for nil consideration.

[a] Options granted on 17 June 2010 under the employee saveshare scheme, in which all employees of the company are entitled to participate.

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

[c] Options exercised on 26 July 2013. Shares were retained after exercise of options.

[d] Options granted on 27 June 2013 under the employee saveshare scheme, in which all employees of the company are entitled to participate.

[e] Options exercised on 14 March 2014. Shares were retained after exercise of options.

[f] Options granted on 17 June 2010 under the employee saveshare scheme, in which all employees of the company are entitled to participate.

Shares held under the Employee Share Investment Plan (ESIP) at 31 March 2014 (audited)

	Total number of shares at 31 March 2014
Gavin Patterson	247
Tony Chanmugam	679

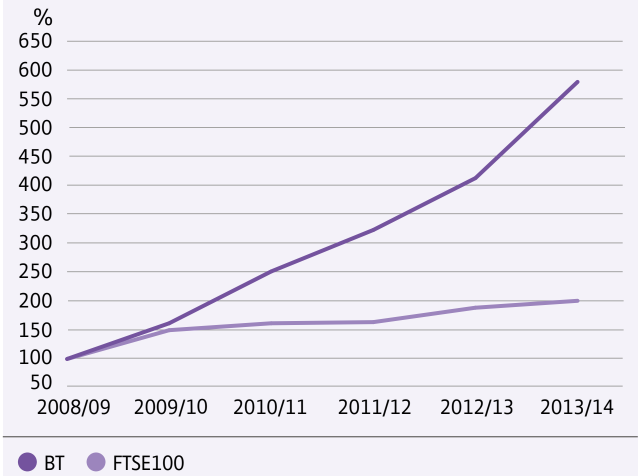
During the year, no awards were made under the ESIP.
All UK employees may participate in the ESIP. The awards are not subject to any performance conditions.

This ends the audited section of the report.

Comparison of Chief Executive remuneration to 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.

BT's TSR performance vs the FTSE100



Source: Datastream
The graph shows the relative TSR performance of BT and the FTSE100 over the past five years.

History of Chief Executive remuneration

Year end	Chief Executive	Total Rem £000	Annual bonus (of max)	ISP vesting (of max)
2014[a]	Gavin Patterson	£2,901	62%	78.7%
	Ian Livingston	£4,236	35%	63.4%
2013	Ian Livingston	£9,402	65%	100%
2012	Ian Livingston	£8,520	73%	100%
2011	Ian Livingston	£4,009	79%	0%
2010	Ian Livingston	£3,556	71%	0%

[a] Ian Livingston stepped down on 10 September 2013 and Gavin Patterson took over from that date.

Percentage change in Chief Executive remuneration (comparing 2012/13 to 2013/14)

The table below illustrates the increase in salary, benefits and annual bonus for the Chief Executive and that of a representative group of the company's employees.

For these purposes, we have used the UK management and technical employee population representing around 23,000 people because they also participate in performance related pay arrangements on a similar basis as executive directors.

	Salary	Benefits[b]	Bonus[c]
% Change in Chief Executive remuneration[a]	0%	31%	–9%
% Change in comparator group[d]	3.1%	0%	29.7%

[a] Represents the change for the role of Chief Executive during the period. Ian Livingston was Chief Executive until 10 September 2013 when he stepped down and Gavin Patterson was appointed. The Chief Executive package at on target remuneration was reduced by around 20% on change of incumbent representing around £0.8m.
[b] The increase in benefits for the Chief Executive was £8,704.
[c] The bonus comparator is based on cash bonus only to give a better like for like comparison. A combination of cash and deferred bonus would indicate a reduction of 43%.
[d] Comparator group is the UK management and technical employee population representing around 23,000 individuals.

Relative importance of spend on pay

The table below illustrates the change in total remuneration and dividends and share buy-back paid.

Area	2013/14 (£m)	2012/13 (£m)	% Change
Remuneration paid to all employees	4,703	4,785	-1.7
Dividends/share buybacks	1,083	986	9.8

Implementation of Remuneration Policy in 2014/15

Base salary

The committee continues to position salaries towards the lower end of market practice for our comparator companies. Comparator company information is provided by Deloitte, independent advisor to the committee, and consists of companies of a similar size or market capitalisation and/or have a similar business mix and spread as BT or operate in comparable markets.

Gavin Patterson will receive a salary increase to £950,000 per annum effective June 2014, an increase of 2.7%, in line with the mid-range of pay awards for our managerial and technical specialist population.

The committee has re-balanced the remuneration package for Tony Chanmugam, reducing annual bonus opportunity, while placing more emphasis on long-term reward via the ISP. As part of the re-balancing, and following the 2014/15 salary review, Tony's salary will increase to £630,000 per annum effective June 2014, representing an increase of 5%, which reflects his continued strong performance, and importance to the company given the new Chief Executive. Tony's salary remains positioned below mid-market, in line with our policy.

Benefits

The committee intends to set benefits in line with the policy set out on page 104. There are no changes proposed to the benefit framework for 2014/15.

Pension

Current levels of pension provision for 2014/15 are the same as for 2013/14. Executive directors receive an annual amount equal to 30% of salary in lieu of pension provision.

Annual bonus

The committee reviewed the bonus opportunity for the Group Finance Director in light of the changes for the Chief Executive. For 2014/15, the bonus structure for the Group Finance Director was adjusted to bring his remuneration framework into line with the Chief Executive.

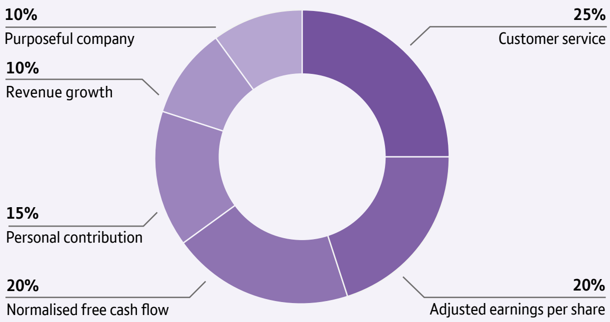
The level of bonus opportunity for the Chief Executive and Group Finance Director is set out in the table below.

Level of 2014/15 bonus

	Chief Executive	Group Finance Director
Annual cash bonus	Target 80% of salary	Target 70% of salary
	Maximum 160% of salary	Maximum 140% of salary
Deferred bonus in shares	Target 40% of salary	Target 35% of salary
	Maximum 80% of salary	Maximum 70% of salary
Total bonus	Target 120% of salary	Target 105% of salary
	Maximum 240% of salary	Maximum 210% of salary

The 2014/15 annual bonus structure and weighting is set out below.

Chief Executive and Group Finance Director
% Weighting



The three financial targets for the annual bonus: adjusted earnings per share; normalised free cash flow; and revenue growth have a direct impact on shareholder value. Customer service (measured through our Right First Time (RFT) and customer advocacy metric) is vital to the company's long-term health and growth. All four of these measures are KPIs for BT and are defined on pages 60 and 61.

Revenue growth was introduced to the short-term bonus structure for the first time in 2013/14 to reflect our aim to drive sustainable profitable revenue growth and increase alignment between the annual bonus and long-term elements of remuneration.

We do not publish details of the adjusted EPS, normalised free cash flow and revenue growth bonus thresholds in advance since these are commercially confidential. We will publish achievement against these targets at the same time as we disclose bonus payments in the Annual Report 2015 so that shareholders can evaluate performance against those targets.

The purposeful company measure is aligned to our strategy and is assessed by the Chief Executive for the Group Finance Director and 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 and replaces the previous ESG measure.

Performance against personal contribution and purposeful company measures is assessed individually.

Incentive Share Plan

As noted on page 91 the remuneration structure for both the Chief Executive and Group Finance Director has been rebalanced, with a reduction in annual bonus opportunity, and a shift of emphasis to the long-term. Accordingly the ISP 2014 award for the Chief Executive will be 400% of salary and 280% of salary for the Group Finance Director. The awards are expected to be made in June 2014. The number of shares awarded is calculated using the average middle market price of a BT share for the three days prior to the grant. The ISP 2014 awards will be subject to a holding period of two years, commencing from the end of the three-year performance period. The holding period will apply to the number of shares received on vesting after tax and other statutory deductions. No further performance measures will apply during the holding period as performance will have already been assessed.

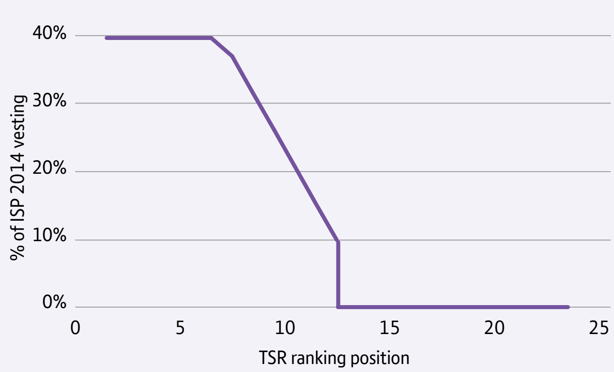
The performance conditions will be the same as for the ISP 2013, 40% based on relative TSR, 40% on normalised free cash flow, and 20% growth in underlying revenue excluding transit revenue over a three-year performance period.

The TSR comparator group is the same as for the ISP 2013 except for the removal of Virgin Media who were acquired by Liberty Global. Cable & Wireless Worldwide was removed from the TSR comparator group in 2012/13 and these represent the only changes from the comparator group on page 95.

TSR Vesting schedule

For the ISP awards to be made in June 2014, 40% of the potential outcome is based on relative TSR. The following graph shows the potential vesting of awards based on the TSR element.

2014 Awards



The target ranges for the normalised free cash flow and underlying revenue growth excluding transit revenue are set out below:

Measure 2014/15–2016/17	Threshold	Level of vesting	Maximum	Level of vesting[a]
Normalised free cash flow[b]	£8.15bn	25%	£9.15bn	100%
Revenue growth[c]	3.5%	25%	6%	100%

[a] Vesting level between threshold and maximum will be on a straight line basis.
[b] Normalised free cash flow is defined on page 61.
[c] Growth in underlying revenue excluding transit is defined on page 60.

The committee continues to believe that the free cash flow and revenue performance measures are challenging, and the financial performance necessary to achieve awards towards each target is stretching. Targets for threshold performance are established at above consensus market expectations at the time set.

Chairman and non-executive director remuneration

The fees for non-executive directors, and the fees for the Chairman, were reviewed during the year. The last review of non-executive director fees was in January 2011. The Chairman and executive directors conducted the review, and considered the role and requirements of BT, together with the fees paid to non-executive directors at companies of a similar size and complexity. Company comparator information was provided by Deloitte, independent advisors to the committee, using the same comparator group of companies as for executive remuneration. Following the review, the basic fee for a non-executive director was increased to £67,500 per year from 1 January 2014 (from £62,000). The Chairman's fee was reviewed by the committee (of which he is not a member). His fee did not increase after this review and is £650,000 per year (2012/13: £650,000).

Additional fees are paid for membership and chairing a Board committee, details of which are given in the table below:

Committee	Member fee	Committee Chair fee
Audit & Risk	£17,500	£30,000
Remuneration	£12,500	£25,000
Nominating & Governance	£7,500	n/a[a]
BT Pensions	£7,500	£15,000
CSRB[b]	£5,000	n/a[a]
Equality of Access Board	n/a	£72,500

[a] Where the Chairman acts as Chair of a Board committee, no additional committee chair fee is payable.
[b] External members of the CSRB receive a fee of £10,000 per annum.

The Senior Independent Director receives an additional fee of £27,000 for that position.

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

The Remuneration Committee

This section describes the membership and role of the committee.

Who we are

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

Committee members

	Meetings	
Member	Eligible to attend	Attended
Tony Ball (Chairman)[a]	8	7
Rt Hon Patricia Hewitt[b]	8	8
Nick Rose	8	8

[a] Tony Ball became chairman on 24 March 2014.
[b] Patricia Hewitt retired from the Board on 23 March 2014.

Karen Richardson joined the committee on 1 May 2014.

Other Remuneration Matters

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.

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

Advisors

During the year, the committee received independent advice on executive remuneration matters from Deloitte. Deloitte received £138,000 in fees for these services. The fees are charged on a time spent basis in delivering advice that materially assisted the committee in their consideration of matters relating to executive remuneration.

Deloitte is a founder member of the Remuneration Consultants Group and as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK.

The committee appointed Deloitte to the role of independent advisors to the committee in 2012 following a competitive tender exercise conducted by the committee.

The committee is comfortable that the Deloitte engagement partner and team, which provide remuneration advice to the committee, do not have connections with BT Group plc that may impair their independence or objectivity. In addition, during 2013/14, Deloitte also provided the company with advice on corporate and indirect taxes, assistance with regulatory, risk and compliance issues and additional consultancy services.

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.

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.

Ian Livingston received an annual fee of £25,000 as a non-executive director of Celtic and an additional annual fee of £5,000 for chairing their audit committee.

Voting at the 2013 Annual General Meeting

The votes cast in respect of the Directors' Remuneration Report at the Annual General Meeting held on 17 July 2013 were:

Votes cast in favour	%	Votes cast against	%
4,817,861,382	97.78%	109,334,198	2.22%

118,310,679 votes were withheld. A vote withheld is not counted when calculating voting outcomes.

Committee evaluation

The committee reviews its performance with Board members and other participants, including through the annual Board evaluation. During the year the triennial external evaluation of the Board began, including the Remuneration Committee, more information is provided on page 82.

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 approach 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 determines the remuneration policy for the executive directors and the Chairman. The Chairman is not a member of the committee.

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.

Targets for performance are established at above consensus 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 Deloitte. The committee also takes into account the pay and employment conditions of all our employees.

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*. The *Audit & Risk Committee* and *Nominating & Governance Committee* held a joint session during the year to cover areas of common interest to both committees.

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 assessment of each senior executive's personal contribution to the purposeful company measures, including results of the regular employee surveys and health and safety outcomes. Adherence to these measures 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 policy

The following pages set out our Directors' remuneration policy (the 'Policy') which will be put forward for shareholder approval at the 2014 AGM on 16 July 2014 in accordance with section 439A of the Companies Act 2006. The Policy will apply to any remuneration payments or payments for loss of office made on or after the AGM. The Policy is divided into separate sections for the executive directors and the Chairman and the non-executive directors.

Legacy matters

The committee may make remuneration payments and payments for loss of office outside of the Policy below, where the terms of the payment were agreed before the Policy came into effect, or at a time when the relevant individual was not an executive director of the company (provided that, in the opinion of the committee, the payment was not in consideration for the individual becoming an executive director of the company). This includes the exercise of any discretion available to the committee in connection with such payments. Any legacy payments will be disclosed in the Annual Remuneration Report for the relevant year.

Minor amendments

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

Executive Directors and Chairman

Policy Element	Operation and Opportunity	Performance measures or basis of payment
Base salary *Purpose – a core element of remuneration, used to attract and retain executive directors of the calibre required to develop and deliver our business strategy.*	Salaries for the executive directors and the Chairman are reviewed annually, although an out-of-cycle review may be conducted if the committee determines it appropriate. A review may not necessarily lead to an increase in salary. Salaries are paid monthly in cash. The pay and conditions for all UK employees are considered when setting salaries for executive directors and the Chairman.	Whilst there is no maximum salary level, any increase will typically be broadly in line with BT's UK employee population. For the executive directors, higher increases may be made under certain circumstances, such as: • increase in the scope and/or responsibility of the individual's role; • development of the individual within their role; and • where an executive director has been appointed to the Board at a lower than typical level of salary, for example to reflect less experience, larger increases may be awarded to move them closer to market practice as their experience develops. Individual and business performance are taken into account in deciding salary levels.
Benefits *Purpose – to support health and wellbeing and provide employees with a market competitive level of benefits.*	Executive directors and the Chairman receive benefits which typically include (but are not limited to) company car (or monthly allowance in lieu of a car or part of such allowance not used for a car), fuel and/or driver, personal telecommunication facilities and home security, medical and dental cover for the directors and their immediate family, special life cover, professional subscriptions, personal tax advice and financial counselling up to a maximum of £5,000 (excluding VAT) a year. Where executive directors are required to relocate, the committee may offer additional expatriate benefits, if considered appropriate. The company purchases directors' and officers' liability insurance to cover the directors, and has in place a directors' and officers' indemnity. The insurance operates to protect the directors in circumstances where, by law, BT cannot provide the indemnity. Further details of the directors' and officers' liability insurance and indemnity are set out on page 112.	While no maximum level of benefits is prescribed, they are generally set at an appropriate market competitive level determined by the committee, taking into account a number of factors including: • the jurisdiction in which the employee is based; • the level of benefits provided for other employees within the group; and • market practice for comparable roles within appropriate pay comparators in that jurisdiction. The committee keeps the benefit policy and benefit levels under regular review.
Annual bonus *Purpose – to incentivise and reward delivery of our business plan on an annual basis.*	Executive directors are eligible for an annual bonus. The Chairman is not eligible for an annual bonus. Awards are based on performance in the relevant financial year. The annual bonus is paid in two elements, a cash element, and a deferred element awarded in shares. Annual bonus amounts are not pensionable. The committee sets annual bonus performance targets each year, taking into account key strategic priorities and the approved budget for the year. The committee ensures that targets set are appropriately stretching in the context of the corporate plan and that there is an appropriate balance between incentivising executive directors to meet targets, while ensuring that that they do not drive unacceptable levels of risk or drive inappropriate behaviours. At least one-third of the annual bonus will be granted in the form of deferred shares to strengthen further the alignment of management interests with the long-term interests of shareholders. The deferred element in shares must be held for a deferral period which will not be less than three years. Additional shares may be accrued in lieu of dividends and awarded on any shares which vest. If following the grant of an award, facts subsequently become known to the committee which would justify a reduction in the award, the committee may reduce the number of deferred shares, including to nil. Further information on the malus provisions are set out on page 109. The maximum annual bonus opportunity is 240% of base salary.	The committee seeks to effectively reward performance against the key elements of our strategy. Measures used typically include, but are not limited to: • financial performance measures – these are chosen carefully to ensure alignment between reward and underlying financial performance. As an example, such measures may include free cash flow and earnings per share; and • non-financial performance measures – these reflect key company, strategic and individual goals. For example, such measures may include customer service, purposeful company and personal objectives. In terms of weighting, non-financial measures will typically account for no more than 50% of the total annual bonus. A sliding scale between 0% and 100% of the maximum award applies for achievement between threshold and maximum performance under the bonus plan.

Incentive Share Plan (ISP) *Purpose – to incentivise executive directors over the longer-term, by rewarding delivery of stretching targets linked to our strategy and long-term value creation.*	Executive directors are eligible to participate in the ISP. The Chairman is not eligible to participate. The ISP forms the long-term variable element of executive remuneration. Awards are discretionary and normally vest subject to performance measured over a three-year period. Under the terms of the plan rules the current ISP has no maximum award level. The committee have determined that it will impose limits for executive directors to apply to future awards. The maximum normal ISP award that may be awarded to an executive director in respect of any financial year of the company will be 400% of basic salary. In exceptional circumstances, for example recruitment, this limit may be increased to 500% of basic salary. The proposed award levels for 2014/15 are set out on page 101. Where shares vest, additional shares representing the value of reinvested dividends are added. In respect of ISP awards made to executive directors in June 2014 and future years, there will be a further holding period of two years, commencing from the end of the three-year performance period applicable to the net number of shares received after tax and other statutory deductions. During the holding period, no further performance measures will apply as performance will already have been assessed. If following the grant of an award, facts subsequently become known to the committee which would justify a reduction in the award, the committee may reduce the number of shares, including to nil. Further information on the malus provisions are set out on page 109.	The committee aligns the performance measures under the ISP with the long-term strategy of the company and considers that strong performance under the chosen measures should result in sustainable value creation: • financial measures – to reflect the financial performance of our business and a direct and focused measure of company success and for example may include free cash flow and revenue measures. We set targets to be appropriately stretching, with regard to a number of internal and external reference points including our business plan and consensus market expectations; and • share price performance measures, to reflect the ultimate delivery of shareholder returns which may, for example, include TSR. This promotes alignment between executive director reward and shareholder value creation. Targets are set with reference to wider market practice and positioned at a level which we consider represents stretching performance. Targets will be measured against a comparator group containing other telecommunication companies and/or companies which are either similar in size or market capitalisation and/or have a similar business mix and spread as BT or operate in comparable markets. In terms of weighting, share price performance measures will typically account for no more than 50% of the total award. Under each performance measure, performance below threshold levels would result in nil vesting for that element. For threshold levels of performance, no more than 25% of the maximum for that element would typically vest, rising to 100% for maximum performance. If an event or transaction occurs which causes the committee to conclude a target is no longer appropriate, the committee can amend that target in a manner which is reasonable in the circumstances provided that the new target produces a fairer measure of performance and is not materially less difficult to satisfy.
Pension *Purpose – to attract and retain executive directors of the right calibre by providing market competitive post-retirement income.*	Executive directors currently receive a cash allowance in lieu of pension. The committee may determine that alternative pension provisions will operate for new appointments to the Board. When determining pension arrangements for new appointments, the committee will give regard to: • the cost of the arrangements; • pension arrangements received elsewhere in the group; and • relevant market practice. The Chairman does not receive a pension benefit or payment in lieu of such benefit, but does receive a lump sum death in service benefit of £1m.	For executive directors, the maximum cash allowance (or equivalent contribution to an executive director's pension) may not exceed 30% of salary. Executive directors who are not members of the BT Pension Scheme benefit from a death in service cover of a lump sum of 4x salary and a dependant's pension of 30% of capped salary.
Save As You Earn Scheme (saveshare) *Purpose – to encourage employee share ownership.*	Executive directors and the Chairman may participate in the saveshare (HMRC approved savings related share option plan) on the same basis as other eligible employees.	All participants may invest up to the limits operated by the company at the time. There are no performance measures attached to these awards.
ESIP (directshare) *Purpose – to encourage employee share ownership.*	Executive directors and the Chairman may participate in the Directshare (HMRC approved purchase of shares from gross salary) on the same basis as other eligible employees.	All participants may invest up to the limits operated by the company at the time. There are no performance measures attached to these awards.

Notes to the policy table

1. For further information on the performance measures applicable to the annual bonus and ISP see page 101.
2. No performance measures are applicable to salary, benefits, pension, BT saveshare and BT directshare in line with market practice.

Remuneration arrangements throughout the company
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 where offered; and
- BT offers a range of employee benefits many of which are available to everyone.

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

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

The maximum level of variable pay (excluding buyouts for which see below) which may be awarded in respect of a recruitment event (internal or external), will not exceed 740% of base salary, representing the current maximum award under the annual bonus and ISP.

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

In making buying-out awards, the committee may use the relevant provision in the Financial Conduct Authority Listing Rules. This allows for the granting of awards specifically to facilitate, in unusual circumstances, the recruitment of an executive director, without seeking prior shareholder approval. In doing so, the committee will comply with the relevant provisions in force at the date of this report.

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

In the event of the appointment of a new non-executive director, remuneration arrangements will be in line with those detailed on page 103.

Payment for loss of office
In a departure event, the committee will typically consider:

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

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

In an exit situation, the committee will consider: the individual circumstances; any mitigating factors that might be relevant; the appropriate statutory and contractual position and the requirements of the business for speed of change.

The default position is that an unvested ISP or DBP award or entitlement lapses on cessation of employment, unless the committee applies discretion to preserve some or all of the awards. This provides the committee with the maximum flexibility to review the facts and circumstances of each case, allowing differentiation between good and bad leavers and avoiding 'payment for failure'.

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

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

In some cases, the treatment is formally prescribed under the rules of the relevant plan so that where there are 'good leaver' circumstances awards, which would otherwise lapse by default, vest either on the normal vesting date or on cessation of employment. These circumstances include death, injury, ill-health, disability, redundancy or sale of the company or business. If the director dies or leaves due to ill health or injury, ISP awards which have less than 12 months of the performance period remaining or DBP awards which have less than 12 months of the deferred period to run, vest automatically on leaving. In other leaver circumstances the committee has discretion to determine when, and to what extent, awards vest.

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

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

ISP/DBP – change of control
In the event of a takeover or scheme of arrangement involving the company, ISP and DBP awards will vest, at a minimum, to the extent that any applicable performance measures have been satisfied at the time

(subject to the committee's discretion to determine the appropriate level of vesting, having regard to such relevant factors as it decides to take into account). If the acquiring company offers to exchange awards over BT shares for awards over its shares (or shares in another company), awards will normally be exchanged and continue under the rules of the relevant plan. If within 12 months of a change of control, a participants employment is terminated by his employer other than for misconduct or performance or he or she resigned as a result of a reduction of his or her duties or responsibilities constituting a material breach of the individuals contract, the participant is entitled to receive an amount equal to the difference between the value he or she received on the change of control he would have received if the relevant performance condition had been met in full.

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

Employment conditions elsewhere in the group

The committee considers the pay and conditions of employees throughout the company when determining the remuneration arrangements for executive directors although no direct comparison metrics are applied.

In particular, the committee considers the relationship between general changes to UK employees' remuneration and executive director reward.

Whilst the committee does not directly consult with our employees as part of the process of determining executive pay, the Board does receive feedback from employee surveys that takes into account remuneration in general. The committee also receives updates from the Group People Director.

Executive director and Chairman service contracts

The other key terms of the service contracts for the current executive directors and the Chairman are set out below.

The termination provisions described above are without prejudice to BT's ability in appropriate circumstances to terminate in breach of the notice period referred to above, and thereby be liable for damages to the executive director or Chairman.

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

Where appropriate, BT may also meet a director's reasonable legal expenses in connection with either his appointment or termination of his appointment.

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

Illustration of executive director pay scenarios

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

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

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

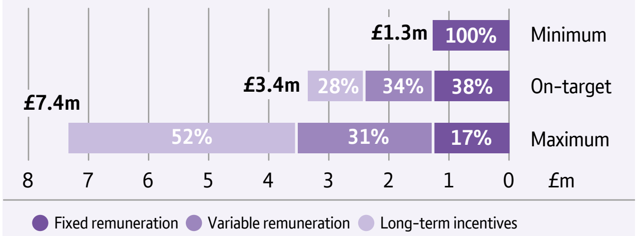
	Performance	Assumptions
Fixed pay	All scenarios	• Consists of total fixed pay – base salary, benefits and pension – Base salary – salary effective as at June 2014 – Benefits – amount received by each director in 2013/14 – Pension – cash supplement in lieu of pension provision for 2014/15
Variable pay	Minimum	• No payout under the annual bonus • No vesting under the ISP
	On-target	• 50% of the maximum payout under the annual bonus • 25% of maximum vesting under the ISP
	Maximum	• 100% of the maximum payout under the annual bonus • 100% of maximum vesting under the ISP

For these purposes, we have assumed a usual maximum ISP award of 400% of base salary for the CEO and 280% of base salary for the GFD. The absolute maximum ISP award under our remuneration policy is 500% of base salary.
For the GFD, we have also assumed a maximum bonus opportunity of 210% of salary.

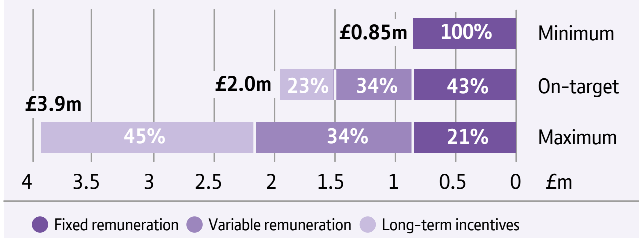
Provision	Policy
Notice period	• 12 months' notice by the company, six months' notice by the executive director or Chairman (there is no fixed expiry date).
Termination payment	• In lieu of giving an executive director or the Chairman 12 months' notice, BT may terminate the director's contract and make a payment in lieu of salary to which the director was entitled if he or she had received notice and the value of contractual benefits for the period. • In respect of the executive directors, the payments in lieu will be payable in equal monthly instalments until the date on which the notice period would have expired or (if earlier) the date on which the director secures alternate employment with the same or higher basic salary or fee. In the event that the director secures alternate employment at a basic salary of £30,000 or higher, but lower than their salary, payment in lieu will be reduced by the amount of the new lower salary received. The Board retains the right to lower the payment in lieu of the directors new employment if it considers the new employment terms of the director are not appropriately balanced between basic salary and other elements, and may cease making payments entirely where the Board is not satisfied the director is making reasonable efforts to secure alternative employment. • In respect of the Chairman, the payment in lieu will be payable in equal monthly instalments until the earlier of 12 months from the date of termination or the date the Chairman secures alternate full-time employment.
Remuneration and benefits	• Participation in the incentive plans ISP, DBP and annual bonus, saveshare and directshare, is non-contractual. The Chairman does not participate in the ISP, DBP or any annual bonus. • Other benefits include pension (including life cover), dental cover, car, private health care (including spouse and children under age of 18 or 21 if in full time education), telecommunication facilities, home security and professional subscriptions. The Chairman does not receive pension benefits but is entitled to all other benefits. • The Chairman receives an all-inclusive fee for the role.

ISP awards have been shown at face value, with no share price growth or discount rate assumptions. All-employee share plans (Saveshare and Directshare) have been excluded, as have any legacy awards held by executive directors.

Chief Executive – performance scenario chart



Group Finance Director – performance scenario chart



Fixed pay is calculated as follows:

	Salary £000	Benefits £000	Pension £000	Total fixed pay £000
Chief Executive	950	43	285	1,278
Group Finance Director	630	32	189	851

Other Remuneration Policies

Malus

Under the terms of the DBP and ISP, if following the grant of an award, facts subsequently become known to the committee which would justify a reduction in the award, the committee may reduce the number of shares under award to take account of this, including to nil. In order to retain flexibility, the events under which this may apply are not formally stipulated in the rules. However, for illustration, such events may include, for example, miss-statement of the financial accounts, fraud or material failure of risk management. Other elements of remuneration are not subject to recovery arrangements.

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 (the Trust) for share option exercises, and shares purchased by the Trust for the vesting of executive share awards in 2014/15. At the end of 2013/14, shares equivalent to 9.35% of the issued share capital (excluding treasury shares) would be required for all share options and awards outstanding. Of these, we estimate that for 2014/15, shares equivalent to approximately 3.81% of the issued share capital (excluding treasury shares) will be required for all the employee share plans.

Consideration of shareholder views

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

The committee will continue to engage with shareholders going forward and will aim to consult on any material changes to the application of the approved remuneration policy or proposed changes to the policy.

Non-executive directors

The Board aims to recruit high-calibre Non-Executive Directors (NEDs), with broad commercial, international or other relevant experience.

The table of remuneration policy for NEDs is set out on page 110.

Non-executive directors' letters of appointment

Each non-executive director has an appointment letter setting out the terms of his or her appointment. They do not have service contracts. The letter includes membership of any Board committees, the fees to be paid and the time commitment expected. We ask each non-executive director to allow a minimum commitment of 22 days each year, subject to committee responsibilities, and to allow slightly more in the first year in order to take part in the induction programme. The actual time commitment required in any year may vary depending on business. We highlight that additional time may be required if the company is going through increased activity.

Appointments are 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 at the Annual General Meeting each year. 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 110.

The appointment letter also covers matters such as confidentiality, data protection and BT's share dealing code.

We reviewed the directors' appointment letters during the year and provided each non-executive director with an updated letter of appointment to incorporate in particular the changes required by the new regimes for directors' remuneration reporting and voting.

Inspection by the public

The service agreements and letters of appointment are open for inspection by the public at the registered office of the company. They will also be available for inspection commencing one hour prior to the start of our AGM, to be held in London on 16 July 2014.

Non-executive directors' remuneration

Non-executive directors, in accordance with BT's Articles of Association, cannot individually vote on their own remuneration. Non-executive director remuneration is reviewed by the Chairman and the executive directors, and discussed and agreed by the Board. Non-executive directors may attend the Board discussion but may not participate in it.

An additional fee of £2,000 per trip is paid to those non-executive directors travelling 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 directors to purchase, on a voluntary basis, BT shares to the aggregate value of £5,000 each year for each year of service. The directors are asked to hold these shares until they retire from the Board. This policy is not mandatory.

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

The table below sets out the remuneration policy for non-executive directors.

Non-executive director fees

Element/purpose and link to strategy	Operation	Opportunity
Purpose – core element of remuneration, paid for fulfilling the relevant role	• NEDs receive a basic fee, paid monthly in respect of their board duties. • Further fees may be paid for chairmanship or membership of Board committees or to the Senior Independent Director. • Additional fees up to £2,000 may also be payable to NEDs travelling regularly from overseas on an intercontinental basis to Board and committee meetings. • NEDs are not eligible for annual bonus, share incentives, pensions or other benefits. • Fees are typically reviewed annually. • Expenses incurred in the performance of non-executive duties for the company may be reimbursed or paid for directly by the company, as appropriate.	• Current fee levels can be found in the Annual Report on Remuneration on page 103. • Fees are set at a level which is considered appropriate to attract and retain NEDs of the necessary calibre. • Fee levels are normally set by reference to the level of fees paid to NEDs serving on boards of similarly-sized, UK-listed companies, taking into account the size, responsibility and time commitment required of the role. • The company's Articles of Association provide the maximum fee level is payable. The maximum is based on NED fees benchmarked as at 1 April 1999 with increases linked to the Retail Price Index.

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.
Gavin Patterson[a]	10 September 2013	Initial term until 10 September 2014, and thereafter terminable by the company on 12 months' notice and by the director on six months' notice.
Tony Chanmugam	1 October 2013	Initial term until 1 October 2014 and thereafter terminable by the company on 12 months' notice and by the director on six months' notice.
Non-executive directors		
Phil Hodkinson	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.
Tony 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.
Nick Rose	1 January 2011	Letter of appointment was for an initial period of three years. The appointment was extended for a further three years in December 2013.
Jasmine Whitbread	19 January 2011	Letter of appointment was for an initial period of three years. The appointment was extended for a further three years in December 2013.
Karen Richardson	1 November 2011	
Warren East	1 February 2014	Letters of appointment are for an initial period of three years.
Iain Conn	1 June 2014	

[a] Gavin Patterson's service agreement was updated on 16 September 2013 due to his appointment as Chief Executive. His previous service agreement commenced on 1 June 2008.

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

Tony Ball
Chairman of the Remuneration Committee
7 May 2014