Report on Directors' Remuneration

Review of the year

The committee has continued with its approach to executive pay and we set out below our key activities.

At the 2014 AGM shareholders endorsed our approach to remuneration and its related disclosure, with more than 99% of votes cast in favour of the Annual Remuneration Report 2013/14.

Shareholders also approved the Remuneration Policy statement (the Policy) with 96% votes cast in support. We have operated within the approved Policy during 2014/15, which we have reproduced on pages 125 to 129, to make it easier to read this year's Annual Remuneration Report. We are not asking shareholders to vote on the Policy at the 2015 AGM.

As we outlined last year, we brought the balance between short-term and long-term remuneration for the Group Finance Director into line with that for the Chief Executive. This re-alignment achieved our aim of reducing the annual bonus opportunity, particularly for on-target performance, and placing greater emphasis on the long-term element of performance.

A key focus has been to reward the delivery of sustained improvements in customer service within our businesses. To this end we introduced a new customer advocacy measure into the customer service element of the annual bonus. BT conducts regular customer perception surveys to assess how well the company performs when delivering its products and services. The survey process is tailored to match the customer profile served by each individual line of business. One-third of the customer service measure within the annual bonus is based on the new customer perception element and the remaining two-thirds on our existing Right First Time (RFT) metric. You can find more information on RFT and the customer perception measure on page 113.

We have reviewed the impact of issuing new shares in February to partly finance the proposed acquisition of EE. While the issue of these new shares will affect some parts of executive remuneration we did not consider that any adjustments for the current year were necessary.

Outcomes for the year

We assessed the executive directors' performance against both long-term and short-term targets.

For annual bonus purposes, both executive directors performed well against the set financial targets and made progress towards their customer service targets. They also delivered on personal contribution and purposeful company measures.

As a result, the annual bonus for the Chief Executive was 58% of maximum and for the Group Finance Director was 54% of maximum. In keeping with past practice, part of the annual bonus is deferred for three years and paid in shares. More detail on performance against the annual bonus measures can be found on page 113.

Total Shareholder Return (TSR) of 126.3% placed BT in the upper quartile of its comparator group over the three-year performance period of our 2012 Incentive Share Plan (ISP) long-term incentive plan. Cumulative three-year normalised free cash flow performance was £7.6bn which was around the middle of the ISP range of £7bn to £8bn. The revenue growth measure was not met. The 2012 ISP vested at 67.4% based on this performance. More information on the ISP vesting is on page 114.

Employees also participated in BT's financial success. Our performance in the year reflects their expertise, hard work and commitment. In August 2014, over 22,000 people in our 2009 savings-related share option plan (saveshare) were able to buy shares at 61p, representing an average gain of around £41,000 each. We believe BT's share plans enable as many of our people as possible to share in BT's success.

Looking ahead

As reported above, shareholders supported our approach to executive pay last year, and we intend to continue with that approach in the year ahead.

Shareholders approved the acquisition of EE at a General Meeting on 30 April 2015 and we are awaiting merger approval from the Competition and Markets Authority (CMA). BT expects the acquisition to complete during 2015/16 following which we will reassess the Policy to ensure that our incentive structure continues to be appropriate for the new organisation. If we conclude that the remuneration structure should change, we will present a new remuneration policy for shareholder approval, at the 2016 AGM.

To comply with the latest changes to the UK Corporate Governance Code, we will introduce a new clawback provision for annual bonus payments executive directors may earn during 2015/16. ISP awards made in 2015/16 and in future years will also be subject to clawback in certain circumstances during the two-year post-vesting period. We provide more detail on the clawback provisions on page 119. Malus provisions have been in place since 2009 in respect of unvested executive share plan awards as set out on page 129.

We reviewed the performance of our executive directors and consistent with our policy to position base pay below the median against our comparator group, we agreed a salary increase of £22,500 per annum for the Chief Executive, an increase of 2.4%. We also agreed a salary increase for the Group Finance Director of £16,000, an increase of 2.5%. Both increases take effect on 1 June 2015.

These salary increases are in line with those for substantially all our UK employees who received an average of 2.5%. Pay awards for this group of employees are agreed through trade union consultation and collective bargaining arrangements.

This year, the committee has maintained the link between pay and performance and will continue to do so.

Tony Ball
Chairman of the Remuneration Committee
6 May 2015

Annual Remuneration Report

This part of the Report summarises key elements of the directors' remuneration in 2014/15.

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 2014/15 and 2013/14 are set out in the table below.

	Basic salary and fees (2014/15) £000	Basic salary and fees (2013/14) £000	Benefits excluding pension (2014/15) £000	Benefits excluding pension (2013/14) £000	Annual Bonus[a] (2014/15) £000	Annual Bonus[a] (2013/14 £000	ISP[b] (2014/15) £000	ISP[c] (2013/14) £000	Pension allowance net of pension contributions[d] (2014/15) £000	Pension allowance net of pension contributions[d] (2013/14) £000	Total 2014/15 £000	Total 2013/14 £000
Sir Michael Rake	656	650	30	30							686	680
G Patterson	946	772	54	43	1,322	1,302	1,812	1,882	284	188	4,418	4,187
T Chanmugam	625	573	32	32	714	1,202	1,701	1,767	188	172	3,260	3,746
T Ball	103	82									103	82
I Conn[e]	79	–									79	–
P Hodkinson	168	154									168	154
I Hudson[f]	32	–									32	–
K Richardson[g]	100	79	16	18							116	97
N Rose	147	112									147	112
J Whitbread	91	84									91	84
W East	94	11									94	11
Total	3,041	2,517	132	123	2,036	2,504	3,513	3,649	472	360	9,194	9,153

[a] Annual bonus shown includes both the cash and deferred share element. The deferred element of the bonus includes the value of deferred shares to be granted in June 2015. Further details of the deferred element are set out below.
[b] Value shown represents the estimated value of the ISP award, granted in June 2012 that are expected to vest in May 2015. The estimate is based on a three-month average share price from 1 January 2015 to 31 March 2015 of £4.3486. Further details are provided on page 114.
[c] ISP 2011 granted in June 2011 and vested in May 2014 at a share price of £3.75. The estimated award value in the 2013/14 report used a share price of £3.87.
[d] Pension allowance paid in cash for the financial year – see 'Total pension entitlement' on page 114.
[e] Iain Conn was appointed as a director on 1 June 2014.
[f] Isabel Hudson was appointed as a director on 1 November 2014.
[g] Includes a fee for regular travel to Board and Board Committee meetings.

Additional disclosures relating to the single figure table

Salaries

We reviewed Gavin Patterson's salary and increased it to £950,000 in June 2014. This was an increase of 2.7% from the prior year. At the same time we increased Tony Chanmugam's salary to £630,000, an increase of 5%. Tony's salary increase was in the context of a re-balancing of his remuneration package placing more emphasis on the long-term element, his strong performance during the year, and his exceptional support during the transition to a new Chief Executive.

The salaries for both Gavin and Tony remain positioned below the median against our comparator group of companies of a similar size and complexity.

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; a purposeful company measure; and personal contribution. 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.

The Chief Executive's target bonus opportunity was 120% of salary and the maximum was 240% of salary. Gavin Patterson's bonus in 2014/15 reflects that he held the position of Chief Executive throughout the financial year. Gavin's bonus in the 2013/14 comparator year was pro-rated to reflect his time in the Chief Executive role and his previous role as CEO, BT Retail.

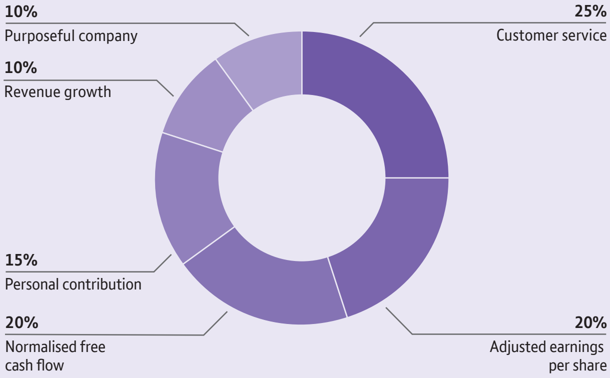
The target bonus opportunity for the Group Finance Director was 105% of salary with a maximum of 210% of salary.

The bonuses for both roles reflects the rebalancing of both executive remuneration packages to move emphasis from short-term bonus to long-term incentive to better align executive pay with BT's goal of delivering sustainable profitable revenue growth and promoting the long-term success of the company.

The bonus weightings for the two roles are described on page 113.

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

Chief Executive and Group Finance Director
% Weighting



The table below provides an overview of performance against the targets for the 2014/15 annual bonus.

Measure	Threshold	Target	Maximum	Outcome	Result % of max
Adjusted EPS (p)[a]	29.8	31.4	33.8	31.5	52%
Normalised free cash flow (£m[b])	2,538	2,672	2,872	2,830	89%
Customer Service	15%	30%	60%	25.6%	42.7%

[a] Adjusted EPS is defined on page 81.
[b] Normalised free cash flow is defined on page 81.

BT made strong progress during the year, delivering on both our business and financial plans. Adjusted EPS increased 12% to 31.5p, and normalised free cash flow increased 16% compared to 2013/14 to £2,830m. The EPS growth was delivered after the large all-employee share option plan maturity in the summer, and the equity placing to partly finance the acquisition of EE, both of which increased the number of shares in issue.

We set a target for growth in revenue excluding transit in the annual bonus linked to the medium-term business plan. The threshold for payment within annual bonus was -1% of this target, with stretch at +1.5% of target. The revenue excluding transit outcome was -1.14% of target and accordingly this element of bonus did not pay out.

We designed the new customer perception measure to take a broader view of customer service beyond just RFT. Regular customer perception surveys are conducted for each line of business and tailored to the customer profile they serve. The line of business measures are designed to reflect that we serve both broad customer bases, for example in BT Consumer, but also numerically smaller groups of large corporate and public sector customers served by BT Global Services. Two-thirds of the customer service measure is based on RFT and one-third on the new customer perception measure. The aggregate customer service measure out-turned at 25.6% against a target of 30%, reflecting improvements in repair performance and shorter lead times. However we still want to do much better in this area. You can find more information on RFT on page 22.

The Chairman assessed the Chief Executive, and the Chief Executive assessed the Group Finance Director, on the purposeful company and personal contribution targets. These assessments were based on a number of factors including BT's regular employee surveys, organisational health, culture and performance against personal objectives.

The Chief Executive achieved 80% of maximum for his personal contribution score and 70% of maximum for his contribution to purposeful company. The personal contribution score reflected leadership in key strategic areas including: the launch of our mobile offering; the proposed acquisition of EE; the acquisition of FA Premier League rights and the results of the triennial pension valuation. In addition the Chief Executive has built relationships with key stakeholders.

The purposeful company outturn is driven by improvements in organisational culture, driving development of over 10,000 senior and front line leaders, while reducing the number of management layers within the business. There have also been improvements in staff perception measures, while staff engagement levels were at the highest level since the survey started in 2008.

The Group Finance Director achieved 60% of the maximum score for both his personal contribution and purposeful company elements. The result for the personal contribution score was from demonstrating strong leadership within the finance function and delivering cost transformation and operational efficiency. Good performance in organisational health delivery, employee engagement and cultural scores, mentoring of senior staff and personal commitment to volunteering activity contributed to the purposeful company score.

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 BT.

Gavin Patterson's annual bonus, paid both in cash and deferred shares represented 139% of salary (2013/14: 168.6%) and 58% of the maximum bonus opportunity (2013/14: 68.1%). 66.6% of the annual bonus will be paid in cash and 33.3% will be granted in deferred shares in June 2015.

Tony Chanmugam's annual bonus, paid both in cash and deferred shares represented 113% of his salary (2013/14: 209.1%) and 54% of the maximum opportunity (2013/14: 79.7%). 66.6% of the annual bonus will be paid in cash and 33.3% will be granted in deferred shares in June 2015.

Bonus award and proportion of value

Element of bonus	Gavin Patterson	Tony Chanmugam
Adjusted EPS	17.97%	19.3%
Normalised free cash flow	30.85%	33.14%
Revenue growth	0%	0%
Customer service	18.4%	19.76%
Purposeful company	12.08%	11.12%
Personal contribution	20.7%	16.68%

Incentive share plan 2012

The ISP is a conditional share award. The awards granted in 2012 vest in May 2015. The performance conditions are 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.

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, have a similar business mix and spread as BT or operate in comparable markets.

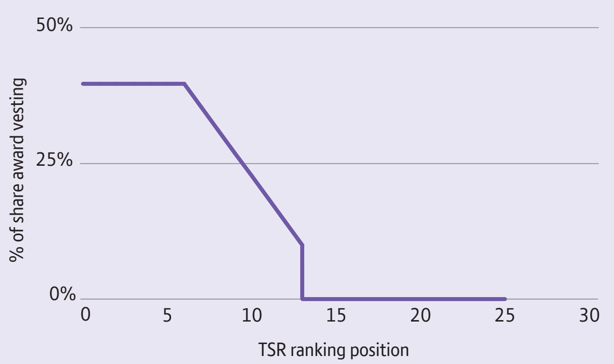
The TSR comparator group for the 2012 ISP comprised the following companies:

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

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 2012 ISP awards.

TSR vesting schedule 2012 Awards



The company's shares achieved a TSR performance of 126.3%. This was 4th 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.

Normalised free cash flow

When we set the performance measures for the 2012 ISP, the threshold for the three-year cumulative normalised free cash flow was set well above consensus market expectations at the time, with the upper part of the range considered to be extremely stretching. We achieved a three-year cumulative normalised free cash flow outcome of £7.6bn. This fell between the threshold and maximum targets of £7bn to £8bn, resulting in 27.4% out of the 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 group's aim to drive sustainable profitable revenue growth. The measure was based on growth in underlying revenue excluding transit measured against the baseline of 2011/12, with the threshold set as growth of 2%.

The impact of challenging markets and regulatory pricing pressures resulted in the threshold target for revenue growth not being met. Accordingly this element did not vest.

Overall vesting of 2012 ISP

The performance in the TSR and normalised free cash flow resulted in a 67.4% vesting of the 2012 ISP. The number of shares due to vest under the 2012 ISP, in May 2015, is set out below. An estimate of the cash value of the shares vesting is shown in the single figure table on page 112.

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	737	1,075	1,812	416,719
Tony Chanmugam	691	1,010	1,701	391,131

[a] An estimate based on the three-month average share price from 1 January 2015 to 31 March 2015 of £4.3486.

Total pension entitlements (audited)

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 112. Gavin has previously been a member of the BTRSS but neither he nor the company has made any contribution to the scheme during 2014/15. 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. Further information is provided in the table below. 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 112. 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.

Deferred pension benefits at 31 March 2015 (audited)

The table below shows Tony Chanmugam's pension benefits at 31 March 2015. There was no pension accrued over the financial year and no contributions were made into the pension plans.

	Normal retirement age	Accrued Pension (£000)	Additional scheme lump sum (£000)
Tony Chanmugam [a]	60	214	642

[a] Tony Chanmugam's contributions in 2015 were £nil (2014: £nil). Figures represent total benefits accrued across two BT pension schemes. Tony is beyond the pension plans' normal retirement age and is not drawing a pension.

Awards granted during the year (audited)

2014 ISP Awards

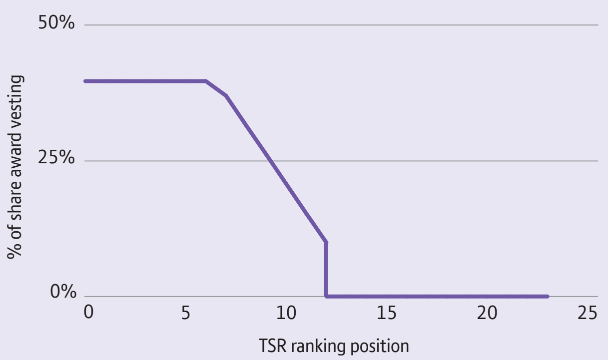
The 2014 ISP awards were made in June 2014 as set out below and on page 118. The award to Gavin Patterson represented 400% of his salary and 280% of salary for Tony Chanmugam.

Director	Date of award	ISP award (shares)	Face value of award[a]
Gavin Patterson	19 June 2014	989,068	£3,799,999
Tony Chanmugam	19 June 2014	459,135	£1,763,996

[a] Face value based on share price at the date of grant, being £3.842 for grants on 19 June 2014.

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 2014 to 31 March 2017. The performance conditions are the same for each director. The target ranges for TSR; the normalised free cash flow and underlying revenue growth excluding transit for the three-year performance period 2014/15–2016/17 is set out in the table below.

TSR vesting schedule 2014 Awards



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

Please see page 114 for details of how TSR is calculated.

The TSR comparator group for the 2014 ISP awards was the same for awards granted in June 2012 except for the removal of Cable & Wireless Worldwide which was acquired by Vodafone and Virgin Media which was acquired by Liberty Global.

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

Deferred shares

A proportion of the 2013/14 annual bonus was awarded in deferred shares. The table below provides further details.

Director	Date of award	DBP award (shares)	Face value of award[a]
Gavin Patterson	19 June 2014	126,071	£484,365
Tony Chanmugam	19 June 2014	134,123	£515,301

[a] Face value based on share price at the date of the award of £3.842.

The deferred shares are not subject to further performance conditions and normally vest in three years if the individual is still employed by BT. Details of all interests in deferred shares are set out on page 117.

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

Former directors (audited)

Sir Peter Bonfield received, under pre-existing arrangements, a pension of £469,526 in 2014/15 (2013/14: £457,181).

Baroness Jay retired as a non-executive director on 13 January 2008 but continues to be 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 (audited)

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

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 Chief Executive is required to build up a shareholding equal to 300% of salary, and the Group Finance Director 150% of salary. The aim of this personal shareholding policy is to encourage the build up of a meaningful 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.

The value of the BT shares to be used in determining whether the minimum shareholding requirement has been reached is the average BT share price over the preceding 12 months or, if higher, the share price at the acquisition date.

At 31 March 2015, both of 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	877%
Tony Chanmugam	362%

The following table shows the total unvested interests held by the executive directors in the ISP and Deferred Bonus Plan (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 117 to 118.

Unvested interests in shares (audited)

	ISP (subject to performance)		DBP (not subject to performance)	
	1 April 2014	31 March 2015	1 April 2014	31 March 2015
Gavin Patterson	1,990,379	2,408,265	647,163	516,553
Tony Chanmugam	1,512,207	1,411,743	626,283	521,229

The following table shows share options held by the directors. As at 31 March 2015 none of the directors held share options with performance conditions.

Share options held without performance conditions – saveshare (audited)

	1 April 2014	Awarded during year	Exercised during year	Value at date of exercise	31 March 2015
Sir Michael Rake	1,485	–	–	–	1,485
	–	5,172	–	–	5,172
Gavin Patterson	–	5,642	–	–	5,642
Tony Chanmugam	6,024	–	–	–	6,024
	–	501	–	–	501

No saveshare options were exercised by the directors during the year. There were no vested but unexercised awards at the year end.

Directors' interests at 31 March 2015 or date of retirement, if earlier (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 2015 and 1 April 2014, or at date of appointment if later, are shown below:

	Number of shares	
Beneficial holdings	2015	2014
Sir Michael Rake	130,852	130,156
G Patterson[a]	2,102,151	1,692,387
T Chanmugam[a]	574,882	774,925
T Ball	23,196	22,561
I Conn[b]	4,442	–
W East	2,480	2,480
P Hodkinson	25,263	25,263
I Hudson[c]	1,279	–
N Rose	50,000	50,000
K Richardson[d]	7,750	7,750
J Whitbread	7,990	6,790
Total	2,930,285	2,712,312

[a] Includes shares purchased under directshare and free shares awarded under UK allshare. Directshare is a HMRC approved plan that allows BT employees to buy shares out of gross pay. Prior to 2008 BT awarded free shares to UK employees (UK allshare).
[b] Iain Conn joined the Board on 1 June 2014.
[c] Isabel Hudson joined the Board on 1 November 2014.
[d] 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 2015 to 6 May 2015, 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 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 our shareholders. The directors are asked to hold these shares until they retire from the Board. This policy is not mandatory.

Deferred Bonus Plan awards at 31 March 2015 (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.

	1 April 2014	Awarded[a]	Dividends re-invested	Vested	Lapsed	Total number of award shares 31 March 2015	Vesting date	Price at grant	Market price at vesting	Monetary value of vested award £000
Gavin Patterson										
DBP 2011	270,977	–	–	270,977	–	–	01/08/2014	198.83p	381.40p	1,034
DBP 2012	242,455	–	6,902	–	–	249,357	01/08/2015	202.26p	–	–
DBP 2013	133,731	–	3,806	–	–	137,537	01/08/2016	315.00p	–	–
DBP 2014	–	126,071	3,588	–	–	129,659	01/08/2017	384.20p	–	–
Tony Chanmugam										
DBP 2011	253,604	–	–	253,604	–	–	01/08/2014	198.83p	381.40p	967
DBP 2012	239,207	–	6,810	–	–	246,017	01/08/2015	202.26p	–	–
DBP 2013	133,472	–	3,799	–	–	137,271	01/08/2016	315.00p	–	–
DBP 2014	–	134,123	3,818	–	–	137,941	01/08/2017	384.20p	–	–

[a] Awards granted on 19 June 2014. 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. Awards of deferred shares in respect of 2015 will be calculated using the average middle market price of a BT share for the three days prior to grant.

Share awards under long-term incentive schemes held at 31 March 2015 (audited)

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

	1 April 2014	Awarded	Dividends re-invested	Vested	Lapsed	Total number of award shares 31 March 2015	Performance period end	Price on grant	Market price at vesting	Monetary value of vested award £000
Gavin Patterson										
ISP 2011[a]	637,845	–	–	502,047	135,798	–	31/03/2014	198.83p	375.00p	1,882
ISP 2012[b]	601,164	–	17,114	–	–	618,278	31/03/2015	202.26p	434.90p	1,812
ISP 2013[c]	372,130	–	10,594	–	–	382,724	31/03/2016	315.00p	–	–
ISP 2013[d]	379,240	–	10,796	–	–	390,036	31/03/2016	372.00p	–	–
ISP 2014[e]	–	989,068	28,159	–	–	1,017,227	31/03/2017	384.20p	–	–
Tony Chanmugam										
ISP 2011[a]	598,676	–	–	471,217	127,459	–	31/03/2014	198.83p	375.00p	1,767
ISP 2012[b]	564,251	–	16,063	–	–	580,314	31/03/2015	202.26p	434.90p	1,701
ISP 2013[c]	349,280	–	9,943	–	–	359,223	31/03/2016	315.00p	–	–
ISP 2014[e]	–	459,135	13,071	–	–	472,206	31/03/2017	384.20p	–	–

[a] 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 awards vested in May 2014.

[b] 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. The market price at vesting is an estimate of the valve using a three-month average share price from 1 January 2015 to 31 March 2015 of £4.3486. The award will vest at 67.4% of the total number of award shares in May 2015.

[c] 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. 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.

[d] Award granted on 12 November 2013 following appointment as Chief Executive. The number of shares subject to award was calculated using the average middle market price of a BT share for the three days prior to grant. 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 underlying revenue growth (excluding transit) over three years.

[e] Awards granted on 19 June 2014. The number of shares subject to awards was calculated using the average middle market price of a BT share for the three days prior to grant. 40% of each award is linked to TSR compared with a group of 23 companies, 40% is linked to a three-year normalised free cash flow measure and 20% to a measure of underlying revenue growth (excluding transit) over three years.

Share options held at 31 March 2015 (audited)

Number of shares under option

	01-Apr-14	Granted	Lapsed	Exercised	31-Mar-15	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	–	01/08/2016	01/02/2017
	–	5,172[c]	–	–	5,172	319p	–	01/08/2019	01/02/2020
Gavin Patterson	–	5,642[c]	–	–	5,642	319p	–	01/08/2019	01/02/2020
Tony Chanmugam	6,024[b]	–	–	–	6,024	249p	–	01/08/2018	01/02/2019
	–	501[c]	–	–	501	359p	–	01/08/2017	01/02/2018

All of the above options were granted for nil consideration.

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

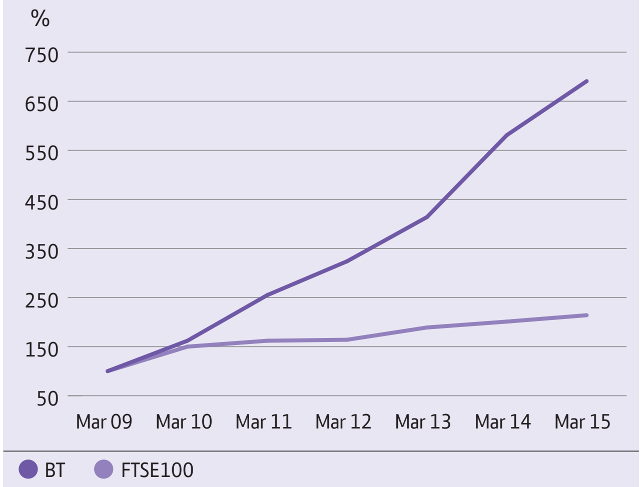
[b] Option granted on 27 June 2013 under the employee saveshare scheme, in which all employees of the company are entitled to participate.

[c] Option granted on 26 June 2014 under the employee sharesave scheme, in which all employees of the company are entitled to participate.

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 six 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 six-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 six years.

History of Chief Executive remuneration

Year end	Chief Executive	Total Rem £000	Annual bonus (of max)	ISP vesting (of max)
2015	Gavin Patterson	£4,418	58%	67.4%
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 2013/14 to 2014/15)

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 21,000 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]	2%	45%	-19%
% Change in comparator group[d]	2.2%	0%	-15%

[a] The 2014/15 year represents to the first full year of Gavin Patterson as Chief Executive.
[b] The increase in benefits for the Chief Executive was around £16,000.
[c] The bonus comparator is based on cash bonus only to give a better like for like comparison.
[d] Comparator group is the UK management and technical employee population representing around 21,000 individuals.

Relative importance of spend on pay

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

Area	2014/15 (£m)	2013/14 (£m)	% Change
Remuneration paid to all employees	4,551	4,703	-3.2%
Dividends/share buybacks	1,244	1,080	15.2%

Implementation of Remuneration Policy in 2015/16

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 adviser to the committee, and consists of companies of a similar size or market capitalisation and/or companies which have a similar business mix and spread as BT or operate in comparable markets.

Gavin Patterson will receive a salary increase to £972,500 per annum effective June 2015, an increase of 2.4%.

Tony Chanmugam's salary will increase to £646,000 per annum effective June 2015, representing an increase of 2.5%.

Both salaries remain positioned below mid-market, in line with our policy and were also in line with the mid range of pay awards for our managerial and technical specialist population.

Benefits

The committee intends to set benefits in line with the Policy set out on page 125. There are no changes proposed to the benefit framework for 2015/16.

Pension

Current levels of pension provision for 2015/16 are the same as for 2014/15. Executive directors receive an annual amount equal to 30% of salary in lieu of pension provision.

Clawback

Clawback provisions will be introduced for annual bonus payments relating to the 2015/16 financial year and paid in May 2016 and for ISP awards made in June 2015. The annual bonus clawback will apply for one year following payment. The ISP clawback arrangements may be enforced by the committee in the two year period post-vesting of any awards.

Annual bonus

The level of bonus opportunity for the Chief Executive and Group Finance Director is set out in the table below. This structure is unchanged from 2014/15.

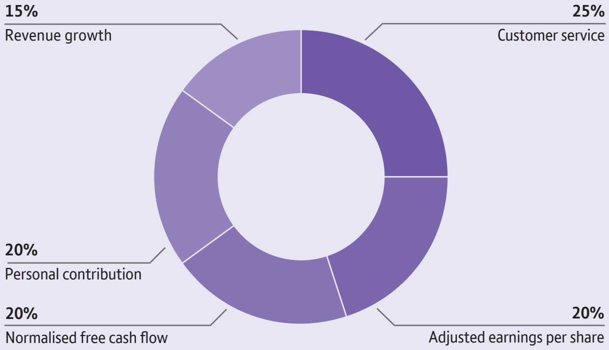
Level of 2015/16 bonus

	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 2015/16 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 growth in underlying revenue excluding transit have a direct impact on shareholder value. Customer service (measured through our Right First Time (RFT) and the customer perception measure) is vital to the company's long-term health and growth. All four of these measures are KPIs for BT and are defined on page 81.

Revenue growth reflects 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 Form & 20-F 2016 so that shareholders can evaluate performance against those targets.

We agreed to combine the previous purposeful company measure into the personal contribution element to simplify this element of annual bonus. The personal contribution 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.

Performance against the personal contribution element is assessed individually and is based on organisational culture and growth measures.

Incentive Share Plan

The 2015 ISP 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 2015. 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 2015 ISP 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 2014 ISP: 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.

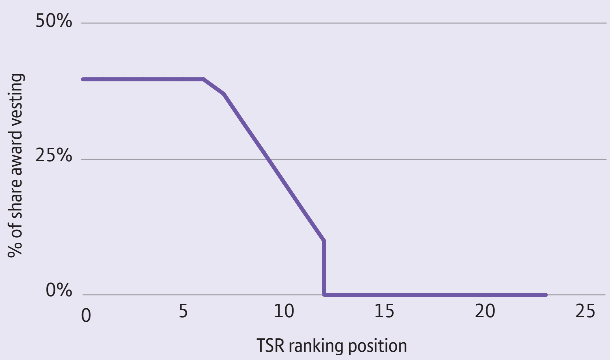
The TSR comparator group for the 2015 ISP will comprise the following companies.

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

TSR Vesting schedule

For the 2015 ISP awards, 40% of the potential outcome is based on relative TSR. The following graph shows the potential vesting of awards based on the TSR element.

TSR vesting schedule 2015 Awards



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

Measure 2015/16–2017/18	Threshold	Level of vesting	Maximum	Level of vesting[a]
Normalised free cash flow[b]	£8.6bn	25%	£9.6bn	100%
Revenue growth[c]	6.5%	25%	9%	100%

[a] Vesting level between threshold and maximum will be on a straight line basis.
[b] Normalised free cash flow is defined on page 81.
[c] Growth in underlying revenue excluding transit is defined on page 81.

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 2014. In accordance with the Articles of Association, 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 advisers 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 £70,000 per year from 1 January 2015 (from £67,500). The Chairman's fee was reviewed by the committee (of which he is not a member). His fee increased to £675,000 per year after this review (2013/14: £650,000).

The fees for membership of, or chairing, a committee were also reviewed. The membership fee for the Audit and Risk Committee was increased to £20,000 per year (2013/14: £17,500) and the membership fee for the Remuneration Committee increased to £15,000 per year (2013/14: £12,500). A new Technology Committee was created during the year.

The additional fees paid for membership and chairing a Board committee are given in the table below:

Committee	Member fee	Committee Chair fee
Audit & Risk	£20,000	£30,000
Remuneration	£15,000	£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
Technology	£5,000	-

[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.

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 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 six times during the year.

Our membership and meeting attendance are set out below.

Committee members

	Meetings	
Member	Eligible to attend	Attended
Tony Ball (Chairman)	6	6
Karen Richardson[a]	4	4
Nick Rose	6	6

[a] Karen Richardson joined the committee on 1 May 2014.

Patricia Hewitt stepped down from the committee on 23 March 2014. Karen Richardson joined the committee on 1 May 2014 and, during the intervening period, the committee, consisting of two members, held two meetings. Karen was available to attend the first of those meetings, as an observer. The Chairman joined the committee for a part of both. As such the committee was able to deal with the business of the two meetings effectively.

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 & Company Secretary.

Advisers

During the year, the committee received independent advice on executive remuneration matters from Deloitte. Deloitte received £84,350 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 advisers to the committee in 2012 following a competitive tender exercise conducted by the committee.

The committee is comfortable that the Deloitte engagement partner and team, who provide remuneration advice to the committee, do not have connections with BT that may impair their independence or objectivity. In addition, during 2014/15, Deloitte also provided the company with advice on corporate and indirect taxes, assistance with regulatory, risk and compliance issues and additional consultancy services.

Dilution

For a number of years we 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 2015/16. At the end of 2014/15, shares equivalent to 3.81% of the issued share capital (excluding treasury shares) would be required for all share options and awards outstanding. Of these, we estimate that for 2015/16, shares equivalent to approximately 0.72% of the issued share capital (excluding treasury shares) will be required for the all-employee share plans.

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.

Voting at the 2014 Annual General Meeting

The votes cast in respect of the Annual Remuneration Report at the Annual General Meeting held on 16 July 2014 were:

	Votes cast in favour	%	Votes cast against	%
Approve Annual Remuneration Report	4,878,920,254	99.09%	44,775,713	0.91%
Approve Directors' Remuneration policy	4,579,788,136	96.85%	148,973,373	3.15%

13,108,196 votes were withheld against approving the Annual Remuneration Report and 208,032,899 votes were withheld against approval of the Directors' Remuneration policy. 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.

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 123.

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

Inspection by the public

The service agreements and letters of appointment are available 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 15 July 2015.

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	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. A further extension of 12 months was agreed with effect from 31 January 2015 and will terminate in January 2016.
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	Letter of appointment was for an initial period of three years. The appointment was extended for a further three years in October 2014.
Warren East	1 February 2014	Letters of appointment are for an initial period of three years.
Iain Conn	1 June 2014	
Isabel Hudson	1 November 2014	

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
6 May 2015

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 and includes the 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 was approved by shareholders at the AGM on 16 July 2014 in accordance with section 439A of the Companies Act 2006.

The Policy on pages 125 to 129 is a repeat of the Policy set out in the Annual Report & Form 20-F 2014 (on pages 104 to 110). The page cross references within the repeated Policy are to the respective pages in the Annual Report & Form 20-F 2014. The Policy, as approved, is also available online at www.bt.com/downloadcentre

We are repeating the Policy this year because we think that it is helpful when reading the Annual Remuneration Report.

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. Under this power, the committee will introduce clawback provisions for annual bonus payments relating to 2015/16 and ISP awards (made in 2015/16 and in future years) in certain circumstances during the two years post vesting.

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 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 (eg 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.

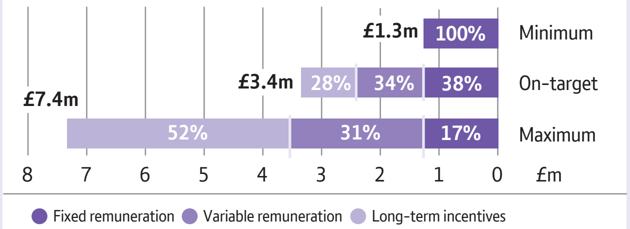
	Performance	Assumptions
Fixed pay	All scenarios	• Consists of total fixed pay – base salary, benefits and pension – Base salary – salary effective as at June 2014 – Benefits – amount received by each director in 2013/14 – Pension – cash supplement in lieu of pension provision for 2014/15
Variable pay	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.

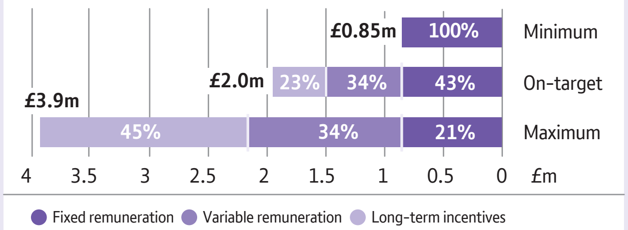
Provision	Policy
Notice period	• 12 months' notice by the company, six months' notice by the executive director or Chairman (there is no fixed expiry date).
Termination payment	• In lieu of giving an executive director or the Chairman 12 months' notice, BT may terminate the director's contract and make 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

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.

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.

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.