

## Report on Directors' Remuneration



### Review of the year

At the 2015 AGM shareholders endorsed our approach to remuneration and its disclosure, with 98.6% of votes cast in favour of the Annual Remuneration Report 2014/15.

During 2015/16 we continued to operate within the Remuneration Policy (the Policy) approved at the 2014 AGM. The Policy is reproduced on pages 142 to 148.

The committee's approach to remuneration includes emphasis on rewarding executives for delivering on the key strategic goals of the group, including the acquisition of EE. We considered whether the previously set performance measures for the existing Incentive Share Plan (ISP) awards remained appropriate. More detail on this can be found on page 138.

We announced during the year that after a long and distinguished career the Group Finance Director, Tony Chanmugam, would leave by mutual agreement and therefore the committee decided to treat him as a good leaver. Further details are provided on pages 132 to 133. In addition, to help with a smooth hand over to his successor he has agreed to stay on in an integration team lead position to ensure that we are on track to deliver the integration synergies and wider key performance measures associated with the EE acquisition.

### Outcomes for the year

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

For annual bonus purposes, both executive directors performed well against their financial targets. However, as sufficient progress was again not made realising improvements in our customer service levels no bonus was paid for this component.

We have also assessed each director's contribution against their personal performance measures.

As a result, the annual bonus for the Chief Executive was 45% of maximum and for the Group Finance Director was 43% of maximum. In both cases bonuses are lower than last year, reflecting the above mentioned poor customer service performance against the target. In keeping with past practice, part of the annual bonus is deferred for three years and paid in shares. The detail of performance against the annual bonus measures is set out on page 130.

Total Shareholder Return (TSR) of 88.9% placed BT in the upper quartile of its comparator group over the three-year performance period of our 2013 ISP. Cumulative three-year normalised free cash flow performance was £8.1bn which was towards the upper end of the ISP range of £7.4bn to £8.4bn. We returned above threshold performance against our revenue measure. The 2013 ISP vested at 82.01% based on this performance. More information on the ISP vesting is on pages 130 to 131.

Employees also participated in BT's financial success. BT's performance in the year reflects a great deal of expertise, hard work and commitment. In August 2015, around 23,000 people in our savings-related share option plans (saveshare) were able to buy shares – mostly at £1.04 and the rest at £1.89 – representing an average gain of around £10,200 and £4,400 respectively. We continue to believe that BT's share plans help as many of our people as possible to share in BT's success.

### Looking ahead

Following approval of the acquisition of EE from the Competition and Markets Authority, BT completed the transaction in January 2016. As we indicated last year, we reassessed the Policy to ensure that our incentive structure continues to be appropriate for the enlarged group. As reported above, we concluded that the remuneration structure should not change and accordingly, there is no requirement to present a new remuneration policy for shareholder approval at the 2016 AGM.

We reviewed the performance of our executive directors and consistent with our approach to establish base pay below the median against our comparator group, we agreed a salary increase of £24,325 per annum for the Chief Executive, an increase of 2.5%. The increase takes effect in June 2016. This salary increase is consistent with the approach taken for substantially all our UK employees who received an average increase of 2.5%. Pay awards for this group of employees are agreed through trade union consultation and collective bargaining arrangements.

We also resolved that no salary increase should be made to the Group Finance Director in light of his stepping down later in 2016/17.

Finally, we agreed the remuneration package for the incoming Group Finance Director, Simon Lowth, who joins the company on 4 July which is set out on page 133.

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

**Tony Ball**  
Chairman of the Remuneration Committee  
4 May 2016

# Annual Remuneration Report

This part of the Report summarises key elements of the directors' remuneration in 2015/16.

## 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 2015/16 and 2014/15 are set out in the table below.

	Basic salary and fees (2015/16) £000	Basic salary and fees (2014/15) £000	Benefits excluding pension (2015/16) £000	Benefits excluding pension (2014/15) £000	Annual Bonus <sup>a</sup> (2015/16) £000	Annual Bonus <sup>a</sup> (2014/15) £000	ISP <sup>b</sup> (2015/16) £000	ISP <sup>c</sup> (2014/15) £000	Pension allowance net of pension contributions <sup>d</sup> (2015/16) £000	Pension allowance net of pension contributions <sup>d</sup> (2014/15) £000	Total 2015/16 £000	Total 2014/15 £000
Sir Michael Rake	675	656	31	30							706	686
G Patterson <sup>e</sup>	969	946	57	54	1,057	1,322	3,022	1,956	291	284	5,396	4,562
T Chanmugam	643	625	32	32	587	714	1,405	1,836	193	188	2,860	3,395
T Ball	112	103									112	103
I Conn	103	79									103	79
T Höttges <sup>f</sup>	–	–									–	–
I Hudson	99	32									99	32
M Inglis <sup>g</sup>	47	–									47	0
K Richardson <sup>h</sup>	114	100	16	16							130	116
N Rose	152	147									152	147
J Whitbread	97	91									97	91
<b>Sub-total</b>	<b>3,011</b>	<b>2,779</b>	<b>136</b>	<b>132</b>	<b>1,644</b>	<b>2,036</b>	<b>4,427</b>	<b>3,792</b>	<b>484</b>	<b>472</b>	<b>9,702</b>	<b>9,211</b>
<b>Former directors</b>												
P Hodkinson <sup>i</sup>	143	168	2								145	168
W East <sup>j</sup>	17	94									17	94
<b>Total</b>	<b>3,171</b>	<b>3,041</b>	<b>138</b>	<b>132</b>	<b>1,644</b>	<b>2,036</b>	<b>4,427</b>	<b>3,792</b>	<b>484</b>	<b>472</b>	<b>9,864</b>	<b>9,473</b>

<sup>a</sup> Annual bonus shown includes both the cash and deferred share element. The deferred element of the 2015/16 bonus includes the value of deferred shares to be granted in June 2016. Further details of the deferred element are set out below.

<sup>b</sup> Value shown represents the estimated value of ISP awards granted in 2013 that are expected to vest in May 2016. The estimate is based on a three-month average share price from 1 January 2016 to 31 March 2016 of £4.63. Further details are provided on pages 130 to 131.

<sup>c</sup> Vesting of ISP 2012 granted in June 2012 and vested in May 2015 at a share price of £4.69.

The value shown last year of £1,812 for the Chief Executive and £1,767 for the Group Finance Director were based on an estimated share price of £4.35.

<sup>d</sup> Pension allowance paid in cash for the financial year – see 'Total pension entitlement' on page 131.

<sup>e</sup> The 2015/16 ISP figure reflects two awards granted in 2013. One as CEO BT Retail and one as Chief Executive.

<sup>f</sup> Tim Höttges was appointed as a director on 29 January 2016. Under the terms of the Relationship Agreement between BT and Deutsche Telekom and Tim's letter of appointment, no remuneration is payable for this position.

<sup>g</sup> Mike Inglis was appointed as a director on 1 September 2015.

<sup>h</sup> Includes an additional fee for regular travel to Board and Board Committee meetings.

<sup>i</sup> Phil Hodkinson retired as a director on 31 January 2016. Value shown relates to reimbursement of reasonable travelling and other expenses (including any relevant tax) incurred in carrying out his duties.

<sup>j</sup> Warren East retired as a director on 31 May 2015.

## Additional disclosures relating to the single figure table

### Salaries

We reviewed Gavin Patterson's salary and increased it to £972,500 in June 2015. This was an increase of 2.4% from the prior year. At the same time we increased Tony Chanmugam's salary to £646,000, an increase of 2.5%.

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 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.

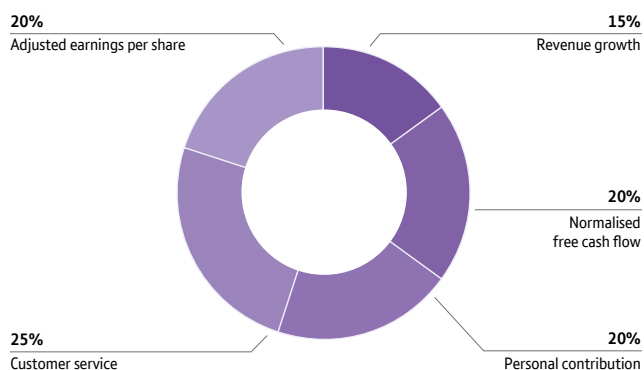
The Chief Executive's target bonus opportunity was 120% of salary and the maximum was 240% of salary.

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

The bonus weightings for the two roles are described on page 130.

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 2015/16 annual bonus.

Measure	Threshold	Target	Maximum	Outcome	Result % of max
Adjusted EPS (p) <sup>a</sup>	30	31.6	34	33.5	89.3%
Normalised free cash flow (£m) <sup>b</sup>	2,712	2,855	3,069	2,827	46.8%
Revenue (£m) <sup>c</sup>	17,506	17,683	17,948	17,522	27.3%

<sup>a</sup> Adjusted EPS is defined on page 97.

<sup>b</sup> Normalised free cash flow is defined on page 97.

<sup>c</sup> Revenue is defined on page 97.

Bonus outcomes were based on BT standalone performance during the year. BT continued to make progress during the year, delivering on both our business and financial plans as shown in the table above.

Two-thirds of the customer service measure is based on Right First Time (RFT) and one-third on the customer perception measure. We did not meet threshold against stretching customer service targets and therefore no bonus was paid for this element. 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 personal contribution targets and performance against personal objectives. These assessments were based on a number of factors including BT's regular employee surveys, organisational health, culture and performance against personal objectives set at the start of the year.

The Chief Executive achieved 70% of maximum for his personal contribution score. The personal contribution score reflected leadership in key strategic areas including the acquisition of EE and the subsequent restructuring of the organisation.

The Group Finance Director achieved 60% of the maximum score for his personal contribution. The result for the personal contribution score was for delivering against our cost transformation and operational efficiency objectives.

For both the Chief Executive and Group Finance Director, bonus is delivered in both cash (two-thirds) and deferred shares (one third). 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 109% of salary (2014/15: 139%) and 45% of the maximum bonus opportunity (2014/15: 58%).

Tony Chanmugam's annual bonus, paid both in cash and deferred shares represented 91% of his salary (2014/15: 113%) and 43% of the maximum opportunity (2014/15: 54%).

The deferred shares will be granted in June 2016.

### Bonus award and proportion of value

Element of bonus	Gavin Patterson	Tony Chanmugam
Adjusted EPS	39.40%	41.22%
Normalised free cash flow	20.64%	21.59%
Revenue growth	9.05%	9.47%
Customer service	0%	0%
Personal contribution	30.91%	27.71%

### Incentive share plan 2013

The ISP is a conditional share award. The awards granted in 2013 vest in May 2016. 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.

The performance outcome for the 2013 ISP is measured on the basis of standalone BT performance and excludes any EE contribution.

### 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.

#### BT's TSR comparator group for the 2013 ISP comprised the following companies:

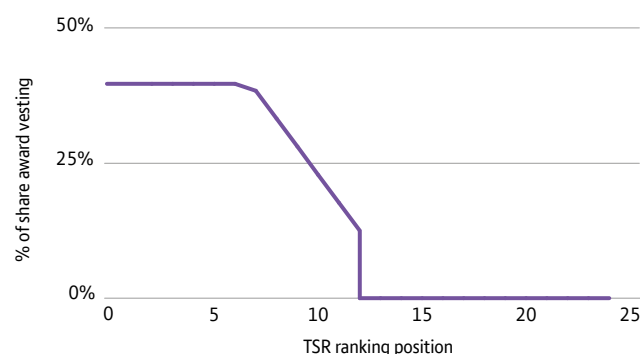
- Accenture
- AT & T
- Belgacom
- Cap Gemini
- Centrica
- Deutsche Telekom
- France Telecom
- Hellenic Telecom
- IBM
- National Grid
- Pharol (formerly Portugal Telecom)
- Royal KPN
- Sky
- Swisscom
- TalkTalk
- Telecom Italia
- Telefónica
- Telekom Austria
- Telenor
- TeliaSonera
- Verizon
- Virgin Media
- Vodafone

The TSR for a company is calculated by comparing the return index (RI) at the beginning of the performance period with the RI at the end of the period. The RI is the TSR value of a company measured on a daily basis, as tracked by independent analysts, Datastream.

It uses the official closing 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 2013 ISP awards.

#### TSR vesting schedule 2013 awards



The company's shares achieved a TSR performance of 88.9%. This was fourth out of 24 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 2013 ISP, the threshold for the three-year cumulative normalised free cash flow was set above consensus market expectations at the time, with the upper part of the range considered to be stretching. We achieved a three-year cumulative normalised free cash flow outcome of £8.1bn. This fell between the threshold and maximum targets of £7.4bn to £8.4bn, resulting in 31.5% out of the 40% of the ISP award that related to the cash flow element vesting.

#### Underlying revenue excluding transit

This measure reflects 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 2012/13, with the threshold set as growth of 1%.

Over the three-year period we grew underlying revenue by 2.1%, resulting in 10.5% of the 20% of the ISP award that related to the revenue element vesting.

#### Overall vesting of 2013 ISP

Performance against the TSR, normalised free cash flow and revenue targets resulted in a 82.01% vesting of the 2013 ISP. The number of shares due to vest in May 2016 is set out below. An estimate of the cash value of the shares vesting is shown in the single figure table on page 129.

Director	Vesting of revenue element (£000)	Vesting of free cash flow element (£000)	Value of TSR element (£000)	Total value of ISP Vesting (£000) <sup>a</sup>	ISP Vesting (shares)
Gavin Patterson	387	1,161	1,474	3,022	652,642
Tony Chanmugam	180	540	685	1,405	303,385

<sup>a</sup> An estimate based on the three-month average share price from 1 January 2016 to 31 March 2016 of £4.63.

#### 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 129. Gavin has previously been a member of the BTRSS but neither he nor the company has made any contribution to the scheme during 2015/16. BT also provides death in service cover of a lump sum of four times his salary plus a dependant'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 129. Tony has deferred payment of the BTPS benefit 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 2016 (audited)

The table below shows Tony Chanmugam's pension benefits at 31 March 2016. 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 <sup>a</sup>	60	248	745

<sup>a</sup> Tony Chanmugam's contributions in 2015/16 were £nil (2014/15: £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)

### 2015 ISP awards

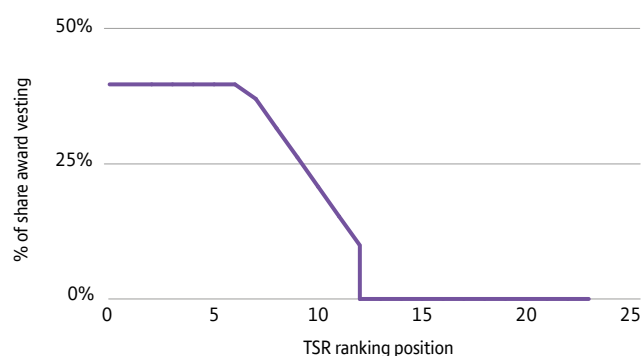
The 2015 ISP awards were made in June 2015 as set out below and on page 135. The award to Gavin Patterson represented 400% of his salary and for Tony Chanmugam it was 280% of salary.

Director	Date of award	ISP award (shares)	Face value of award <sup>a</sup>
Gavin Patterson	18 June 2015	865,341	£3,899,708
Tony Chanmugam	18 June 2015	402,372	£1,808,662

<sup>a</sup> Face value based on share price at the date of grant of £4.495.

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 2015 to 31 March 2018. The performance conditions are the same for each director and were set on the basis of standalone BT performance and excludes any EE contribution. The target ranges for TSR; the normalised free cash flow and underlying revenue growth excluding transit for the three-year performance period 2015/16–2017/18 is set out in the table below.

### TSR vesting schedule 2015 awards



Measure 2016/17-2018/19	Threshold	Level of vesting	Maximum	Level of vesting <sup>a</sup>
Normalised free cash flow	£8.6bn	25%	£9.6bn	100%
Revenue <sup>b</sup> growth	6.5%	25%	9%	100%

<sup>a</sup> Vesting levels between threshold and maximum will be on a straight line basis.  
<sup>b</sup> 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.

Please see page 130 for details of how TSR is calculated.

The TSR comparator group for the 2015 ISP awards was the same for awards granted in June 2014.

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

### Deferred shares

A proportion of the 2014/15 annual bonus was awarded in deferred shares. The table below provides further details.

Director	Date of award	DBP award (shares)	Face value of award <sup>a</sup>
Gavin Patterson	18 June 2015	98,004	£440,528
Tony Chanmugam	18 June 2015	52,946	£237,992

<sup>a</sup> Face value based on share price at the date of the award of £4.495.

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 134.

When Deferred Bonus Plan (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 £477,038 in 2015/16 (2014/15: £469,526).

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.

### Arrangements for the outgoing Group Finance Director

Tony Chanmugam's service contract has a notice period of 12 months and includes a provision for a termination payment in lieu of notice of up to 12 months' base salary plus contractual benefits. All payments made to him in respect of 2015/16 are reported in the single figure of remuneration.

His notice period commenced on 1 April 2016. In order to ensure an orderly handover, he will remain in role for a period of time after Simon Lowth joins the company on 4 July 2016. Following this, he will continue to work full-time, overseeing the integration of EE.

During the period of his notice that he is working full-time, he will continue to receive his current salary and contractual benefits. Upon leaving the company's service, he will be entitled to salary and contractual benefits for any period of notice remaining. These payments will be made in instalments and can be reduced pro-rata in the event that he were to secure employment or engagement elsewhere. He will also remain available for consultation by the company as required during this period.

Having served the full year, he was eligible for an annual bonus in respect of 2015/16. As usual, this will be paid two-thirds in cash and one-third in shares which are deferred under the terms of the DBP. He may be eligible for a pro-rata annual bonus in respect of 2016/17, relating to the period for which he is in full-time employment and assessed for performance at the end of the year as normal.



The committee considered the treatment of Tony's outstanding share awards under the DBP and ISP. Given that his departure is by mutual agreement with the company and there is an orderly transition in place, he is considered to be a good leaver for the purposes of the DBP and ISP. As such, his unvested DBP awards will be preserved and vest in accordance with their original timeframes. In line with the committee's typical approach for the treatment of good leavers under the ISP, it has applied pro-rating to the awards by preserving the oldest two cycles and 'lapsing' the most recent award. In practice, this means that his 2014 and 2015 ISP awards will subsist in full (subject to achievement of the relevant performance conditions), whilst the committee has chosen not to make an ISP award in 2016 (in lieu of it being granted and subsequently lapsed).

### Arrangements for the incoming Group Finance Director

As announced on 18 March 2016, Simon Lowth will join the company on 4 July 2016, moving into the Group Finance Director role following a handover period.

In reaching remuneration terms, we maintained our approach of setting base salaries below the median for our comparator group, with a significant proportion of total remuneration being variable and linked to corporate performance.

He will receive a base salary of £700,000. He will have entitlement to our standard benefits package, including a car allowance and healthcare and he will receive a pension allowance of 30% of salary.

In line with the approach which we took with the Group Chief Executive's remuneration package upon his appointment, we have taken the opportunity to rebalance the variable pay package, placing less emphasis on short-term and more on sustainable long-term performance. As such, he will have a maximum opportunity of 180% of salary under the annual bonus (compared to 210% for the current incumbent), one-third of which will be deferred for three years. Meanwhile his maximum ISP opportunity will be 350% of salary (compared to 280% for the incumbent).

Furthermore, the shareholding requirement has been increased. He will be required to build-up and hold a shareholding in the company equivalent to 250% of base salary.

Simon will not receive any buy-out awards in connection with his recruitment.

### 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.

As mentioned above the incoming Group Finance Director, Simon Lowth, will be required to build up a shareholding equal to 250% of salary.

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 2016, both of the executive directors met the shareholding requirements, as set out in the table below:

Executive director	Personal shareholding as a percentage of salary
Gavin Patterson	1,149%
Tony Chanmugam	315%

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 134 to 135.

### Unvested interests in shares (audited)

	ISP (subject to performance)		DBP (not subject to performance)	
	1 April 2015	31 March 2016	1 April 2015	31 March 2016
Gavin Patterson	2,408,265	2,734,526	516,553	376,092
Tony Chanmugam	1,411,743	1,270,600	521,229	337,943

The following table shows share options held by the directors. As at 31 March 2016 none of the directors held share options with performance conditions.

### Share options held without performance conditions – saveshare (audited)

	Share options at 1 April 2015	Options granted during year	Options exercised during year	Value at date of exercise (£)	31 March 2016
Sir Michael Rake	1,485	–	1,485	6,875	–
	5,172	–	–	–	5,172
Gavin Patterson	5,642	–	–	–	5,642
Tony Chanmugam	6,024	–	–	–	6,024
	501	–	–	–	501

Sir Michael Rake exercised an option over 1,485 shares on 3 August 2015. No other saveshare options were exercised by the directors during the year. There were no vested but unexercised options at the year end.

## Directors' interests at 31 March 2016 or date of retirement, if earlier (audited)

The beneficial interests of directors holding office at the end of the year (or at the point of leaving for directors who retired during the year), and their families, in the company's shares at 31 March 2016 and 1 April 2015, or at date of appointment if later, are shown below:

Beneficial holdings	Number of shares	
	2016	2015
Sir Michael Rake <sup>a</sup>	132,957	130,852
G Patterson <sup>a</sup>	2,448,772	2,102,151
T Chanmugam <sup>a</sup>	445,268	574,882
T Ball	23,652	23,196
W East <sup>b</sup>	2,480	2,480
I Conn	4,442	4,442
P Hodgkinson <sup>c</sup>	25,263	25,263
T Höttges <sup>d</sup>	–	–
I Hudson	3,552	1,279
M Inglis	1,200	–
N Rose	50,000	50,000
K Richardson <sup>e</sup>	10,250	7,750
J Whitbread	7,990	7,990
<b>Total</b>	<b>3,155,826</b>	<b>2,712,312</b>

<sup>a</sup> 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).

<sup>b</sup> Warren East retired on 31 May 2015 and the number reflects his holding at that date.

<sup>c</sup> Phil Hodgkinson retired on 31 January 2016 and the number reflects his holding at that date.

<sup>d</sup> Tim Höttges joined the Board on 29 January 2016.

<sup>e</sup> Shares are held as 2,050 American Depositary Shares (ADS). One ADS equates to five BT ordinary shares.

During the period from 1 April 2016 to 4 May 2016, 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 independent 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.

This policy does not apply to Tim Höttges who was appointed to the Board as a non-independent non-executive director following completion of the EE acquisition in January 2016. This assists with avoiding any conflict of interest in relation to Tim's ongoing employment as CEO of Deutsche Telekom.

## Deferred Bonus Plan awards at 31 March 2016 (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 2015	Awarded <sup>a</sup>	Dividends re-invested	Vested	Lapsed	Total number of award shares 31 March 2016	Vesting date	Price at grant	Market price at vesting	Monetary value of vested award £000
<b>Gavin Patterson</b>										
DBP 2012	249,357	–	–	249,357	–	–	01/08/2015	202.26p	464.78p	1,159
DBP 2013	137,537	–	4,102	–	–	141,639	01/08/2016	315.00p	–	–
DBP 2014	129,659	–	3,867	–	–	133,526	01/08/2017	384.20p	–	–
DBP 2015	–	98,004	2,923	–	–	100,927	01/08/2018	449.50p	–	–
<b>Tony Chanmugam</b>										
DBP 2012	246,017	–	–	246,017	–	–	01/08/2015	202.26p	464.78p	1,143
DBP 2013	137,271	–	4,093	–	–	141,364	01/08/2016	315.00p	–	–
DBP 2014	137,941	–	4,114	–	–	142,055	01/08/2017	384.20p	–	–
DBP 2015	–	52,946	1,578	–	–	54,524	01/08/2018	449.50p	–	–

<sup>a</sup> Awards granted on 18 June 2015. 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 2016 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 2016 (audited)

Details of the company's ordinary shares under conditional share awards made to directors, as participants under the ISP are as follows:

	1 April 2015	Awarded	Dividends re-invested	Vested	Lapsed	Total number of award shares 31 March 2016	Performance period end	Price on grant	Market price at vesting	Monetary value of vested award £000
<b>Gavin Patterson</b>										
ISP 2012 <sup>a</sup>	618,278	–	–	416,719	201,559	–	31/03/2015	202.26p	469.49p	1,956
ISP 2013 <sup>b</sup>	382,724	–	11,415	–	–	394,139	31/03/2016	315.00p	463.00p	1,497
ISP 2013 <sup>c</sup>	390,036	–	11,633	–	–	401,669	31/03/2016	372.00p	463.00p	1,525
ISP 2014 <sup>d</sup>	1,017,227	–	30,340	–	–	1,047,567	31/03/2017	384.20p	–	–
ISP 2015 <sup>e</sup>	–	865,341	25,810	–	–	891,151	31/03/2018	449.50p	–	–
<b>Tony Chanmugam</b>										
ISP 2012 <sup>a</sup>	580,314	–	–	391,131	189,183	–	31/03/2015	202.26p	469.49p	1,836
ISP 2013 <sup>b</sup>	359,223	–	10,714	–	–	369,937	31/03/2016	315.00p	463.00p	1,405
ISP 2014 <sup>d</sup>	472,206	–	14,084	–	–	486,290	31/03/2017	384.20p	–	–
ISP 2015 <sup>e</sup>	–	402,372	12,001	–	–	414,373	31/03/2018	449.50p	–	–

<sup>a</sup> 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 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 2015.

<sup>b</sup> 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 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 value using the three-month average share price from 1 January 2016 to 31 March 2016 of £4.63. The award will vest at 82.01% of the total number of award shares in May 2016.

<sup>c</sup> 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 372p. 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. The market price at vesting is an estimate of the value using the three-month average share price from 1 January 2016 to 31 March 2016 of £4.63. The award will vest at 82.01% of the total number of award shares in May 2016.

<sup>d</sup> 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 of 384.20p. 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 growth in underlying revenue (excluding transit) over three years.

<sup>e</sup> Awards granted on 18 June 2015. 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 449.50p. 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 2016 (audited)

Number of shares under option:						Option price per share	Market price at date of exercise	Usual date from which exercisable	Usual expiry date
	1 April 2015	Granted	Lapsed	Exercised	31 March 2016				
<b>Sir Michael Rake</b>	1,485 <sup>a</sup>	–	–	1,485	–	104p	463p	01/08/2015	01/02/2017
	5,172 <sup>c</sup>	–	–	–	5,172	319p	–	01/08/2019	01/02/2020
<b>Gavin Patterson</b>	5,642 <sup>c</sup>	–	–	–	5,642	319p	–	01/08/2019	01/02/2020
<b>Tony Chanmugam</b>	6,024 <sup>b</sup>	–	–	–	6,024	249p	–	01/08/2018	01/02/2019
	501 <sup>c</sup>	–	–	–	501	359p	–	01/08/2017	01/02/2018

All of the above options were granted for nil consideration.

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

<sup>b</sup> Option granted on 27 June 2013 under the employee sharesave scheme, in which all employees of the company are entitled to participate.

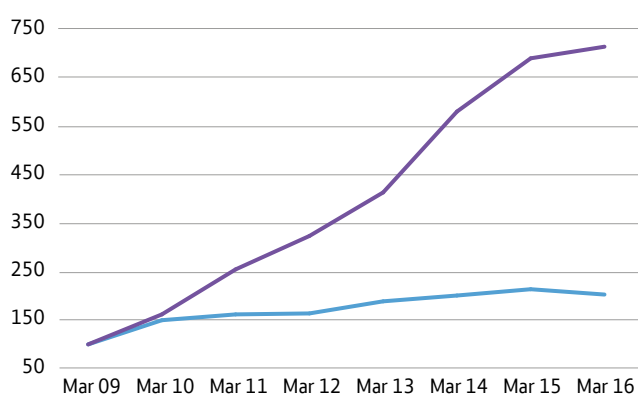
<sup>c</sup> Option granted on 26 June 2014 under the employee sharesave scheme, in which all employees of the company are entitled to participate.



## 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 seven 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 seven-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



● BT ● FTSE100

Source: Datastream

The graph shows the relative TSR performance of BT and the FTSE100 over the past seven years.

## History of Chief Executive remuneration

Year end	Chief Executive	Total rem £000	Annual bonus (% of max)	ISP vesting (% of max)
2016 <sup>a</sup>	Gavin Patterson	5,396	45%	82.01%
2015	Gavin Patterson	4,562	58%	67.4%
2014 <sup>b</sup>	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%

<sup>a</sup> The total remuneration figure includes the ISP award as CEO BT Retail and the first award as Chief Executive, granted in 2013.

<sup>b</sup> Ian Livingston stepped down on 10 September 2013 and Gavin Patterson took over from that date.

## Percentage change in Chief Executive remuneration (comparing 2014/15 to 2015/16)

The table opposite 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 21,500 people because they also participate in performance related pay arrangements on a similar basis as executive directors.

	Salary	Benefits <sup>a</sup>	Bonus <sup>b</sup>
% Change in Chief Executive remuneration	2.5%	5.5%	-20%
% Change in comparator group <sup>c</sup>	2.5%	0%	-20%

<sup>a</sup> The increase in benefits for the Chief Executive was around £2,000.

<sup>b</sup> The bonus comparator is based on cash bonus only to give a better like for like comparison.

<sup>c</sup> Comparator group is the UK management and technical employee population representing around 21,500 individuals.

## Relative importance of spend on pay

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

Area	2015/16 (£m)	2014/15 (£m)	% Change
Remuneration paid to all employees	4,639	4,551	2%
Dividends/share buybacks	1,390	1,244	12%

## Implementation of Remuneration Policy in 2016/17

### 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 £996,825 per annum effective June 2016, an increase of 2.5%.

Tony Chanmugam will not receive a salary increase this year.

The incoming Group Finance Director will receive a salary of £700,000 a year.

### Benefits

The committee has set benefits in line with the Remuneration Policy set out on pages 142 to 148. There are no changes proposed to the benefit framework for 2016/17.

### Pension

Current levels of pension provision for 2016/17 are the same as for 2015/16. Executive directors receive an annual amount equal to 30% of salary in lieu of pension provision.

### Clawback

The clawback provisions introduced in 2015/16 will continue for annual bonus payments relating to the 2016/17 financial year paid in May 2017, and for ISP awards made in June 2016. 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.

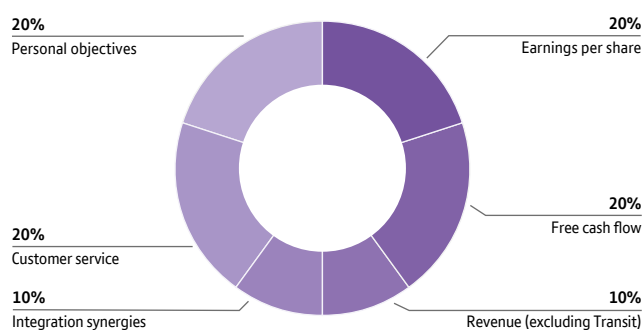
### Annual bonus

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

Level of 2016/17 bonus			
	Chief Executive	Group Finance Director	Incoming Group Finance Director
Annual cash bonus	Target 80% of salary	Target 70% of salary	Target 80% of salary
	Maximum 160% of salary	Maximum 140% of salary	Maximum 120% of salary
Deferred bonus in shares	Target 40% of salary	Target 35% of salary	Target 40% of salary
	Maximum 80% of salary	Maximum 70% of salary	Maximum 60% of salary
Total bonus	Target 120% of salary	Target 105% of salary	Target 120% of salary
	Maximum 240% of salary	Maximum 210% of salary	Maximum 180% of salary

The 2016/17 annual bonus structure and weighting is set out below.

#### Chief Executive and incoming Group Finance Director % Weighting



Adjusted earnings per share; normalised free cash flow; and revenue excluding transit have a direct impact on shareholder value. Customer service (measured through our 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 96.

We have added an integration synergies measure. This will focus executives on delivering the EE acquisition effectively and in a timely manner and also increases the proportion of the total annual bonus based on financial performance.

We do not publish details of the financial targets 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 2017 so that shareholders can evaluate performance against those targets.

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 achievement against individual objectives, organisational culture and growth measures.

### Incentive Share Plan

The 2016 ISP award for the Chief Executive will be 400% of salary and for the incoming Group Finance Director will be 350% of salary. Whilst he would ordinarily receive an award, given his departure later in the year and on the basis of the pro-rating applied to his ISP awards, no award (in lieu of granting and subsequently lapsing it) will be made to the outgoing Group Finance Director in 2016. We expect to grant the Chief Executive's award with the normal operation of the plan in June 2016, and will grant to the incoming Group Finance Director once he has joined the company later in the summer. 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 2016 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 2015 ISP: 40% based on relative TSR; 40% on normalised free cash flow; and 20% growth in underlying revenue excluding transit over a three-year performance period. These measures reflect the adjustments that the committee agreed for the acquisition of EE.

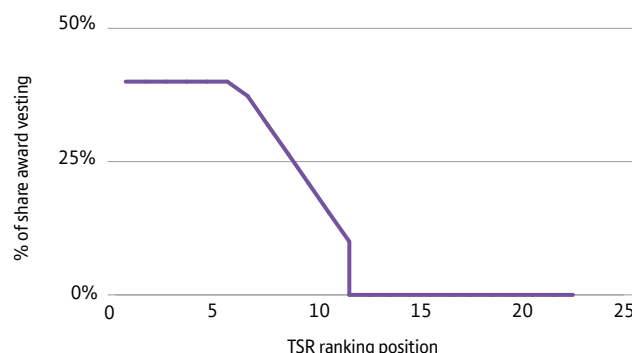
With one change, BT's TSR comparator group for the 2016 ISP will be the same as for 2015 and comprise the companies listed below. The committee agreed the removal of Pharol (formerly Portugal Telecom) on the basis of scale compared to others in the group.

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

#### TSR vesting schedule

For the 2016 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 2016 awards



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

Measure 2016/17–2018/19	Threshold	Level of vesting	Maximum	Level of vesting <sup>a</sup>
<b>Normalised free cash flow<sup>b</sup></b>	<b>£10.7bn</b>	<b>25%</b>	<b>£11.7bn</b>	<b>100%</b>
<b>Revenue growth<sup>c</sup></b>	<b>2.1%</b>	<b>25%</b>	<b>7.6%</b>	<b>100%</b>

<sup>a</sup> Vesting level between threshold and maximum will be on a straight line basis.

<sup>b</sup> Normalised free cash flow is defined on page 97.

<sup>c</sup> Growth in underlying revenue excluding transit is defined on page 97.

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.

### Adjustment of performance measures for outstanding ISP awards

Following completion of the EE acquisition in January 2016, the committee considered whether the previously set performance measures for the 2014 and 2015 ISP awards remained appropriate. Under the rules of the ISP, the committee agreed to adjust the performance measures to reflect the enlarged group as set out in the table below.

Measure 2014/15–2017/18	Threshold	Level of vesting	Maximum	Level of vesting
<b>Normalised free cash flow</b>				
Original	£8.15bn	25%	£9.15bn	100%
Revised	£8.67bn	25%	£9.67bn	100%
<b>Revenue growth</b>				
Original	3.5%	25%	6%	100%
Revised	2.35%	25%	5.35%	100%

Measure 2015/16–2018/19	Threshold	Level of vesting	Maximum	Level of vesting
<b>Normalised free cash flow</b>				
Original	£8.6bn	25%	£9.6bn	100%
Revised	£10.25bn	25%	£11.25bn	100%
<b>Revenue growth</b>				
Original	6.5%	25%	9%	100%
Revised	5.79%	25%	8.3%	100%

The revenue growth measure is based on growth in underlying revenue excluding transit, the impact of acquisitions and disposals and foreign exchange movements. So whilst the absolute value of revenue is targeted to increase significantly between 2015/16 and 2017/18, to maintain the principle of an underlying measure, the base year for revenue growth has been adjusted to include the actual performance of EE during this period, even though EE was not part of BT at the time. The movement in the range represents the relative growth opportunity from the acquisition of EE including revenue synergies and the impact of additional regulation and elimination of internal trading. This provides a fair target measure of performance and is considered to be no more or less difficult to achieve.

## Chairman and non-executive director remuneration

The fees for non-executive directors, and for the Chairman, were reviewed during the year. The last review of non-executive director fees was in January 2015. 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 £72,000 per year (from £70,000) from 1 January 2016. The Chairman's fee was reviewed by the committee (of which he is not a member) and it was agreed no increase should be applied.

The fees for membership of, or chairing, a committee were also reviewed and are reflected in the following table.

	2015/16 fee	2014/15 fee
<b>Audit &amp; Risk Committee member</b>	<b>£25,000</b>	<b>£20,000</b>
<b>Audit &amp; Risk Committee chair</b>	<b>£35,000</b>	<b>£30,000</b>
<b>Nominating &amp; Governance Committee member</b>	<b>£10,000</b>	<b>£7,500</b>
<b>Nominating &amp; Governance Committee chair</b>	<b>n/a<sup>a</sup></b>	<b>n/a<sup>a</sup></b>
<b>Pensions Committee member</b>	<b>£10,000</b>	<b>£7,500</b>
<b>Pensions Committee chair</b>	<b>£25,000</b>	<b>£15,000</b>
<b>Committee for Sustainable &amp; Responsible Business member</b>	<b>£5,000<sup>b</sup></b>	<b>£5,000<sup>b</sup></b>
<b>Committee for Sustainable &amp; Responsible Business chair</b>	<b>n/a<sup>a</sup></b>	<b>n/a<sup>a</sup></b>
<b>Technology Committee member</b>	<b>£14,000</b>	<b>£5,000</b>
<b>Technology Committee chair</b>	<b>n/a<sup>a</sup></b>	<b>n/a<sup>a</sup></b>
<b>Remuneration Committee member</b>	<b>£15,000</b>	<b>£15,000</b>
<b>Remuneration Committee chair</b>	<b>£28,000</b>	<b>£25,000</b>
<b>Equality of Access Board member</b>	<b>n/a</b>	<b>n/a</b>
<b>Equality of Access Board chair</b>	<b>£72,500</b>	<b>£72,500</b>

<sup>a</sup> Where the Chairman or Chief Executive acts as Chair of a Board committee, no additional committee chair fee is payable.

<sup>b</sup> External members of the CSRB receive a fee of £10,000 a year.

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 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

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

## 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 HR 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 LLP. Deloitte received £117,950 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 2015/16, 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 2016/17. At the end of 2015/16, shares equivalent to 1.98% (2014/15: 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 2016/17, shares equivalent to approximately 0.30% (2014/15: 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 2015 Annual General Meeting

The votes cast in respect of the Annual Remuneration Report at the Annual General Meeting held on 15 July 2015 were:

	Votes cast in favour	%	Votes cast against	%
Approve Annual Remuneration Report	5,144,960,474	98.60%	72,885,498	1.40%

74,716,964 votes were withheld against approving the Annual Remuneration Report. 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.

## Independent non-executive directors' letters of appointment

Each independent 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 independent non-executive directors are set out on page 140.

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

Tim Höttges was appointed as a non-independent non-executive director, following Deutsche Telekom's nomination and his appointment letter reflects the terms of the Relationship Agreement between BT and Deutsche Telekom.

## Directors' service agreements and letters of appointment

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

<b>Chairman and executive directors</b>	<b>Commencement date</b>	<b>Expiry date of current service agreement or letter of appointment</b>
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.
<b>Non-executive directors</b>		
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 2015 following extension in 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.
Iain Conn	1 June 2014	Letters of appointment are for an initial period of three years.
Isabel Hudson	1 November 2014	
Mike Inglis	1 September 2015	
Tim Höttges	29 January 2016	Appointed as a non-independent non-executive director under the terms of the Relationship Agreement between BT and Deutsche Telekom. The appointment is terminable immediately by either party.

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. Simon Lowth, the incoming Group Finance Director joins the company on 4 July 2016. There are no family relationships between the directors.

### 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 Cardiff on 13 July 2016.

### Tony Ball

Chairman of the Remuneration Committee

4 May 2016

## 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.

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 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 votes cast in respect of the Policy at the AGM in 2014 were:

	Votes cast in favour	%	Votes cast against	%
Approve Directors' Remuneration policy	4,579,788,136	96.85%	148,973,373	3.15%

208,032,899 votes were withheld against the approval of the Policy. A vote withheld is not counted when calculating voting outcomes.

The Policy on pages 142 to 148 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 [bt.com/downloadcentre](http://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 would 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.