

# Report on directors' remuneration

## Chairman's report



“My report this year sets out how we have implemented our Remuneration Policy, a framework which is intended to appropriately incentivise our high-calibre executive team to drive company success and deliver shareholder value.”

### Our key responsibilities

- Determine the salary and benefits for both executive directors and monitor the relationship between pay and benefits of other employees
- Operation of the annual bonus scheme, including setting performance targets and objectives for the year ahead
- Determine awards under the annual bonus scheme for both executive directors and review the awards of other senior executives
- Governance of the long-term incentive plans, including target setting
- Review and approve the Annual Remuneration Report for inclusion in the Annual Report & Form 20-F
- Review, approve and ensure operation within the Remuneration Policy including seeking shareholder approval, on a binding basis, at least every three years.

### Membership and attendance

Member	Meetings	
	Eligible to attend	Attended
Tony Ball (chairman)	8	8
Isabel Hudson	8	6
Mike Inglis	8	6
Karen Richardson	8	6
Nick Rose	8	8

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, and the HR director, reward, pensions and employee relations.

The company secretary is secretary to the committee and attends all meetings.

### The contents of this report are as follows:

#### Chairman's letter

Review of the year; committee decisions; key outturns and plans for the year ahead

#### Focus on remuneration

The key aspects of our remuneration structure, risk accountability, how we have performed, how we applied the Remuneration Policy during 2017/18 and application in 2018/19

#### Annual Remuneration Report

More detail on how we have applied our Remuneration Policy during 2017/18 including the single figure of remuneration for each director

How we intend to apply the Remuneration Policy in 2018/19

#### Remuneration Policy

We set out our Remuneration Policy, as approved by shareholders at our 2017 AGM

### Review of the year

This has been a challenging year for the company but some good progress has been made in key areas of the business.

The committee has continued to make sure that its approach to remuneration provides a competitive pay package and one that aims to align management's interests with those of shareholders.

At the 2017 AGM shareholders endorsed our approach to remuneration with over 96% of votes cast in favour of both the Annual Remuneration Report 2016/17 and the Remuneration Policy.

### Business performance

The business has continued to work towards delivering on its strategic plans and to this end has made important investments for the future. Although the market environment has become more challenging during the past year BT remains well positioned in its markets and has met the challenges and taken opportunities in a disciplined way.

### Outcomes for the year

**Application of malus:** As reported in 2017, following our investigations into accounting irregularities in our Italian business and publication of revised results for 2014/15 and 2015/16, the committee exercised its discretion to apply the malus provisions in the Deferred Bonus Plan to reduce the number of shares under award for certain participants. This was actioned in May 2017 and further detail is shown on page 166.

In addition, following further consideration regarding the impact of the accounting irregularities in our Italian business, the sanctions arising from Ofcom's findings regarding the application of Deemed Consent in the Openreach business and the fact that both of these issues involved the finance function, the committee has decided to exercise its discretion to apply the malus provisions in respect of the remaining Deferred Bonus Plan awards of the former group finance director, Tony Chanmugam, given his role as head of the finance function, to reduce those awards to zero. In doing so the committee accepted that Tony Chanmugam was not personally implicated in or culpable for either issue.

**2017/18 bonus:** The annual bonus is based on performance against key financial and non-financial metrics, and personal objectives. Key measures under the financial and non-financial elements include profit, cash flow, revenue, and customer experience. Overall, the formulaic results against the targets set under these measures produced an above-target outcome, as set out on page 162. In particular, this reflected outperformance against the cash flow and customer experience measures. In reviewing whether this level of payout was appropriate, the committee welcomed and agreed the chief executive's proposal to cap the outcome of the financial and non-financial measures at target, taking into account the underlying financial and operating performance of the business during the year. The committee also reviewed the personal performance of both executive directors against their key objectives for the year.

Overall, this resulted in an annual bonus of 54% of maximum for the chief executive and 72% of maximum for the chief financial officer.

**2015–2018 ISP vesting:** The group returned below-threshold performance against all of the performance measures for the 2015 ISP. This resulted in the award lapsing in full. More information on the 2015 ISP is on page 163.

### Looking ahead

**Base salary review:** The committee considered the base salaries of the executive directors in the context of the UK employee population. BT has agreed a 3.1% annualised pay settlement for team members in the UK in 2018, and a 2.5% pay review budget for increases for the UK managerial and professional team in 2018.

We reviewed the performance of the executive directors and, in line with the increases agreed for our managerial employees, we agreed 2.5% salary increases for both the chief executive and the chief financial officer, to take effect from June 2018.

The committee proposes no changes to how benefits and pension will be operated for the executive directors, and no changes to the structure of the annual bonus, which will have the same opportunity and weightings as for 2017.

We reviewed the level of ISP award for the executive directors. In the case of the chief executive the committee carefully considered reverting to an award of 400% of salary however, in light of the share price fall in the year, we decided that an award of 350% of salary was fair. It is the committee's intention to revert to an award of 400% of salary next year assuming overall performance supports that move. An ISP award of 350% of salary will also be made to the chief financial officer.

Finally, as I step down as a director of BT and after almost nine years as a member of the committee, half of which as chairman, I would like to take this opportunity to thank our shareholders for their support and guidance as we have strived to develop and deliver best practice in remuneration matters at BT.

### Tony Ball

Chairman of the Remuneration Committee

9 May 2018

# Focus on remuneration

## How we align our remuneration policy with shareholders' interests and risk management

Base salary and core benefits	
<p><b>Alignment with shareholders' interests</b></p> <ul style="list-style-type: none"> <li>Forms a key part of the remuneration framework required to attract, retain and motivate the calibre of executives needed to shape and execute our strategy and generate shareholder value.</li> </ul>	<p><b>Risk accountability</b></p> <ul style="list-style-type: none"> <li>Loss of existing talent and an inability to recruit new talent would represent a risk to the business</li> <li>Mitigated by setting salary and benefits at a level that is competitive against relevant businesses and recognises breadth of the role and individual experience.</li> </ul>
<p><b>Application in 2017/18</b></p> <ul style="list-style-type: none"> <li>No change to base salaries for Gavin Patterson (£996,825) and Simon Lowth (£700,000)</li> <li>Both executive directors received a cash pensions allowance of 30% of salary</li> <li>Benefits include company car, fuel or driver, personal telecommunication facilities and home security, medical and dental cover (for the directors and immediate family), life cover, professional subscriptions, personal tax advice and financial counselling.</li> </ul>	<p><b>Application for 2018/19</b></p> <ul style="list-style-type: none"> <li>An increase of 2.5% for both executive directors to be applied in June 2018</li> <li>The new base salary for Gavin Patterson will be £1,022,000 and for Simon Lowth £717,500</li> <li>There are no changes being proposed to the benefit framework or pension arrangements for 2018/19.</li> </ul>
Annual bonus	
<p><b>Alignment with shareholders' interests</b></p> <ul style="list-style-type: none"> <li>Financial and personal objectives are set with reference to our business strategy approved by the Board</li> <li>They capture KPIs for the business, including: <ul style="list-style-type: none"> <li>EPS, free cash flow and revenue (excluding transit)</li> <li>Delivering great customer service</li> <li>Personal objectives linked to key operational and strategic projects</li> </ul> </li> <li>Deferral of one third of the bonus for three years provides retention and alignment over the longer term.</li> </ul>	<p><b>Risk accountability</b></p> <ul style="list-style-type: none"> <li>The Board seeks to ensure that the budget balances achievable goals without encouraging undue risk. Incentive targets are then linked to the budget</li> <li>The financial metrics reflect how well management mitigates our principal business risks</li> <li>The committee retains absolute discretion to reduce variable compensation in light of risk and the group's overall performance</li> <li>Bonus deferral encourages a focus on long-term outcomes</li> <li>Malus and clawback provisions are in place.</li> </ul>
<p><b>Application in 2017/18</b></p> <ul style="list-style-type: none"> <li>The maximum level of bonus opportunity was 240% for the chief executive, and 180% for the chief financial officer</li> <li>The committee welcomed and agreed the chief executive's proposal to cap the overall outcome of the key financial and customer experience measures at target. Coupled with performance against personal objectives, this resulted in an annual bonus of 54% of maximum for the chief executive and 72% of maximum for the chief financial officer.</li> </ul>	<p><b>Application for 2018/19</b></p> <ul style="list-style-type: none"> <li>No changes are being proposed to either the maximum bonus opportunities or the overall structure of the plan.</li> </ul>
Incentive Share Plan (ISP)	
<p><b>Alignment with shareholders' interests</b></p> <ul style="list-style-type: none"> <li>Based on performance against three measures critical to BT's long-term success</li> <li>Total shareholder return (TSR) metric provides a direct measure of our relative performance against peers.</li> </ul>	<p><b>Risk accountability</b></p> <ul style="list-style-type: none"> <li>Metrics balance financial performance (cash flow and revenue (excluding transit)) with total return, producing a rounded view of performance and effective risk management over the longer term</li> <li>Two year holding period ensures individuals retain exposure to the share price for at least five years in total.</li> </ul>
<p><b>Application in 2017/18</b></p> <ul style="list-style-type: none"> <li>Chief executive: received an award of 350% of salary (reduced from 400% as a result of the share price fall over the previous year)</li> <li>Chief financial officer: received an award of 350% of salary.</li> </ul>	<p><b>Application for 2018/19</b></p> <ul style="list-style-type: none"> <li>Chief executive: the same approach will be applied as taken in 2017/18 and the chief executive will receive an award of 350% of salary</li> <li>Chief financial officer: will receive an award of 350% of salary</li> <li>Following committee review, a revised TSR comparator group will be used for the 2018 ISP awards.</li> </ul>
Shareholding guidelines	
<p><b>Alignment with shareholders' interests</b></p> <ul style="list-style-type: none"> <li>Shareholding guidelines ensure appropriate alignment between executives and investors</li> <li>Current shareholding levels are set out on page 165.</li> </ul>	<p><b>Risk accountability</b></p> <ul style="list-style-type: none"> <li>Encourages executives to build and hold a material, personal stake in the business</li> <li>Ensures that they have significant equity at stake in the event of adverse risk-related events.</li> </ul>
<p><b>Application in 2017/18</b></p> <ul style="list-style-type: none"> <li>Chief executive: equivalent to 300% of salary</li> <li>Chief financial officer: equivalent to 250% of salary.</li> </ul>	<p><b>Application for 2018/19</b></p> <ul style="list-style-type: none"> <li>No changes are being proposed.</li> </ul>

# Focus on remuneration

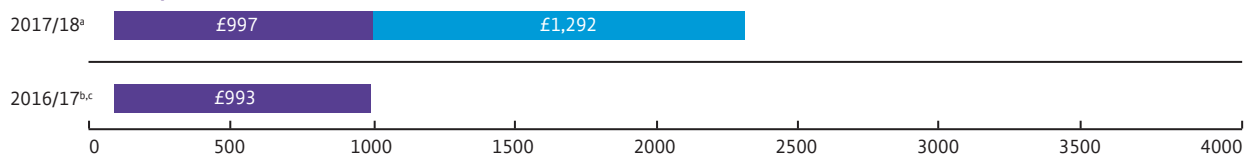
The Remuneration Report is colour-coded as follows:

- **Base salary**
- **Annual bonus**  
Annual bonus,  
deferred bonus
- **Incentive Share Plan (ISP)**

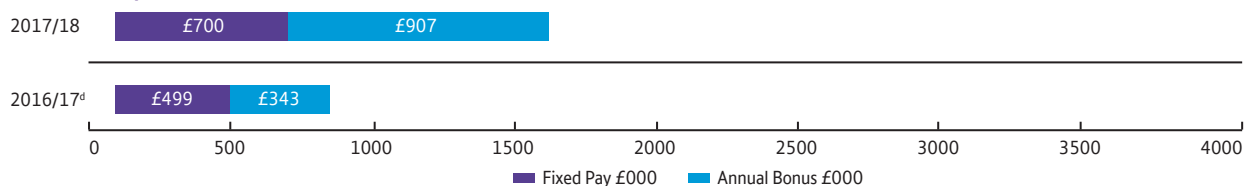
## Pay breakdown

The pay breakdown for the executive directors in 2016/17 and 2017/18 is set out below.

### Gavin Patterson, Chief executive



### Simon Lowth, Chief financial officer



<sup>a</sup> The group returned below-threshold performance against all of the performance measures for the 2015 ISP. This resulted in the award lapsing in full.  
<sup>b</sup> No bonus was awarded to the chief executive in 2017.  
<sup>c</sup> The group returned below-threshold performance against all of the performance measures for the 2014 ISP. This resulted in the award lapsing in full.  
<sup>d</sup> Simon Lowth was appointed to the Board on 12 July 2016. His first ISP award was made in 2016.

## Annual bonus for 2017/18

The resulting bonus outcomes as a percentage of base salary were:

### Chief executive



### Chief financial officer



## Vesting of 2015 ISP award

The ISP is a conditional share award with three performance conditions measured over a three-year performance period. As disclosed in the 2016 Directors' Remuneration Report, upon completion of the EE acquisition in January 2016, the free cash flow and revenue measures were adjusted to reflect the enlarged group. The group returned below-threshold performance against all of the performance measures for the 2015 ISP. This resulted in the award lapsing in full.

Performance	Outcome	Performance	Outcome	Performance	Outcome
40% Total shareholder return	20 <sup>th</sup> = target not met	40% Normalised free cash flow	£8.58bn = target not met	20% Underlying revenue growth (excluding transit)	0.72% = target not met
Threshold target 12 <sup>th</sup>		Threshold target £10.25bn		Threshold target 5.79%	

# Remuneration Principles

Our remuneration principles are to maintain a competitive remuneration package that promotes the long-term success of the business, avoids excessive or inappropriate risk-taking and aligns management's 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. 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 currently a member of 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
- takes account of the pay and employment conditions of all our employees, the performance of the group and the individual, the current views and guidelines of shareholders and their representatives, and general market conditions. Remuneration arrangements at other companies of a similar size and complexity are also reviewed for guidance
- continues to keep under review the relationship of risk to remuneration. The chair of the *Audit & Risk Committee* is currently a member of the *Remuneration 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 which typically includes the environmental, social, health and safety and governance agenda
- 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.

# Annual remuneration report

This section summarises all elements of the directors' remuneration in 2017/18.

## Single total figure of remuneration (audited)

The following sets out all emoluments received by directors for the financial years 2017/18 and 2016/17, including bonus and deferred bonus, long-term incentive plans and pension arrangements.

	Basic salary and fees (2017/18) £000	Basic salary and fees (2016/17) £000	Benefits excluding pension (2017/18) £000	Benefits excluding pension (2016/17) £000	Annual Bonus <sup>a</sup> (2017/18) £000	Annual Bonus <sup>a</sup> (2016/17) £000	ISP <sup>b</sup> (2017/18) £000	ISP <sup>c</sup> (2016/17) £000	Malus <sup>d</sup> (2017/18)	Pension (2017/18) £000	Pension <sup>e</sup> (2016/17) £000	Total 2017/18 £000	Total 2016/17 £000
<b>Chairman</b>													
Jan du Plessis <sup>f</sup>	322	–	43	–	–	–	–	–	(338)	299	298	365	–
<b>Executive Directors</b>													
Gavin Patterson	997	993	57	54	1,292	–	–	–	(338)	299	298	2,307	1,345
Simon Lowth <sup>g</sup>	700	499	23	17	907	343	–	–	–	210	151	1,840	1,010
<b>Non-executive directors</b>													
Tony Ball	138	124	2	–	–	–	–	–	–	–	–	140	124
Iain Conn	122	121	–	–	–	–	–	–	–	–	–	122	121
Tim Höttges <sup>h</sup>	–	–	–	–	–	–	–	–	–	–	–	0	0
Isabel Hudson <sup>i</sup>	188	179	1	1	–	–	–	–	–	–	–	189	180
Mike Inglis <sup>i</sup>	105	86	2	1	–	–	–	–	–	–	–	107	87
Karen Richardson <sup>ij</sup>	127	126	31	18	–	–	–	–	–	–	–	158	144
Nick Rose <sup>i</sup>	173	159	2	2	–	–	–	–	–	–	–	175	161
Jasmine Whitbread	107	102	–	–	–	–	–	–	–	–	–	107	102
<b>Sub-total</b>	<b>2,979</b>	<b>2,389</b>	<b>161</b>	<b>93</b>	<b>2,199</b>	<b>343</b>	<b>–</b>	<b>–</b>	<b>(338)</b>	<b>509</b>	<b>449</b>	<b>5,510</b>	<b>3,274</b>
<b>Former director</b>													
Sir Michael Rake <sup>k</sup>	394	675	20	35	–	–	–	–	–	–	–	413	710
<b>Total</b>	<b>3,373</b>	<b>3,064</b>	<b>181</b>	<b>128</b>	<b>2,199</b>	<b>343</b>	<b>–</b>	<b>–</b>	<b>(338)</b>	<b>509</b>	<b>449</b>	<b>5,923</b>	<b>3,984</b>

<sup>a</sup> Annual bonus shown includes both the cash and deferred share element. The deferred element of the 2017/18 bonus includes the value of deferred shares to be granted in June 2018.

Further details of the deferred element are set out below.

<sup>b</sup> The ISP 2015 granted in June 2015 will lapse in full in May 2018. Further details are provided on page 163.

<sup>c</sup> The ISP 2014 granted in June 2014 lapsed in full in May 2017.

<sup>d</sup> As a result of investigations into improper accounting practices in BT's Italian business, the committee exercised its discretion and applied the malus provisions under the Deferred Bonus Plan. This was applied in May 2017 and the figure was calculated based on the share price at the time of the original grant. Further details are provided on page 166.

<sup>e</sup> Pension allowance paid in cash for the financial year net of pensions contributions – see 'Total pension entitlements' on page 163.

<sup>f</sup> Jan du Plessis joined the Board on 1 June 2017 and became chairman on 1 November 2017.

<sup>g</sup> Simon Lowth was appointed as a director on 12 July 2016.

<sup>h</sup> Under the terms of the Relationship Agreement between BT and Deutsche Telekom and Tim Höttges's letter of appointment, no remuneration is payable for this position.

<sup>i</sup> Value shown relates to reimbursement of reasonable travelling and other expenses (including any relevant tax) incurred in carrying out their duties.

<sup>j</sup> Includes an additional fee for regular inter-continental travel to Board and Board Committee meetings.

<sup>k</sup> Sir Michael Rake retired as a director on 31 October 2017 and the remuneration he received in performing that role is set out in the table above. No termination payment was made. Sir Michael Rake will provide advisory services on specific matters to the company from November 2017 until June 2018.

### Additional disclosures relating to the single figure table (audited)

#### Salaries

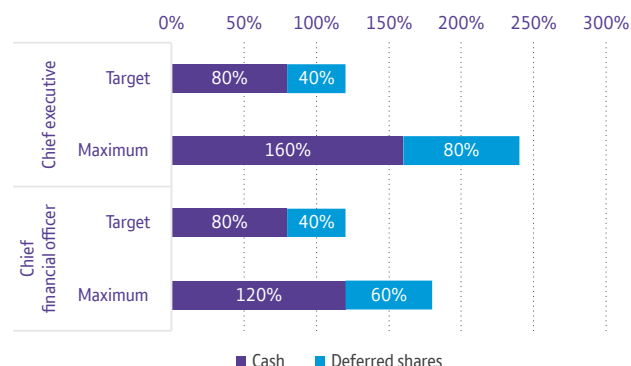
Executive directors' salaries are reviewed annually, with increases typically effective from 1 June. We reviewed the salaries for Gavin Patterson and Simon Lowth during the year and agreed that they should remain unchanged at £996,825 and £700,000 respectively. The annualised pay settlement for our team members in the UK in 2017/18 was 2.1%.

#### Benefits

Benefits provided to the 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), life cover (executive directors only), professional subscriptions, personal tax advice and financial counselling.

#### Annual bonus

The annual bonus opportunities (expressed as a percentage of salary) for the executive directors in 2017/18 were as follows:

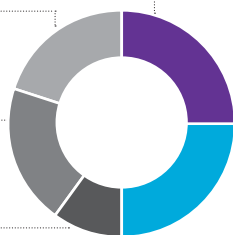


We set out below the weighting of the annual bonus structure for the executive directors in 2017/18.

#### Chief executive and chief financial officer

% Weighting

- 25% Adjusted earnings per share
- 20% Personal objectives
- 20% Customer experience
- 10% Revenue (excluding transit)
- 25% Normalised free cash flow



The annual bonus is based on performance against key financial and non-financial metrics, and personal objectives. Key measures under the financial and non-financial elements include profit, cash flow, revenue (excluding transit) and customer experience.

As set out in the table below, overall the formulaic results against the targets set under these measures produced an above-target outcome. In particular, this reflected outperformance against the cash flow and customer experience measures. In reviewing whether this level of payout was appropriate, the committee welcomed and agreed the chief executive's proposal to cap the combined outcome of the financial and customer experience measures at target, taking into account the underlying financial and operating performance of the business during the year.

Measure	Threshold	Target	Maximum	Actual	Outcome
Adjusted EPS (p) <sup>a</sup>	26.5	27.9	30	27.9	Target
Normalised free cash flow (£m) <sup>b</sup>	2,621	2,759	2,966	2,973	Maximum
Revenue (excluding transit) (£m) <sup>c</sup>	23,689	23,928	24,287	23,487	Below threshold
Customer experience	50	100	200	176.66	Between target and maximum

<sup>a</sup> Adjusted EPS is defined on page 25.  
<sup>b</sup> Normalised free cash flow is defined on page 25.  
<sup>c</sup> Revenue (excluding transit) is defined on page 24.

The chairman assessed the chief executive, and the chief executive assessed the chief financial officer on personal contribution targets and performance against personal objectives. These assessments were based on a number of factors including BT's regular employee surveys 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 the progress on developing BT's strategic transformation programme which will underpin the future business performance, including the completion of the important milestones in the governance review following the learnings from the Italy and Deemed Consent issues from the prior year and leading the significant refresh of BT's executive team during the year.

The chief financial officer achieved 90% of maximum for his personal contribution score. This reflects his exceptional contribution this year in leading BT's pension review and driving our transformation agenda in BT including the Board strategy, as well as his substantial progress on transforming the structure, capability and culture within the finance function.

For both executive directors, one-third of any bonus paid is deferred into shares for three years with the remaining two-thirds paid in cash. Deferred shares are not subject to performance conditions.

The chief executive's bonus, paid both in cash and deferred shares, represented 130% of salary (2016/17: 0%) and 54% of the maximum bonus opportunity (2016/17: 0%).



The chief financial officer's bonus, paid both in cash and deferred shares represented 130% of salary (2016/17: 68.8% (pro-rated to reflect the period he was in full-time employment during the year)) and 72% of the maximum bonus opportunity (2016/17: 38.2% pro-rated to reflect the period he was in full-time employment during the year).

The deferred shares will be granted in June 2018.

#### Total bonus

Name	% of bonus due to business score	% of bonus due to personal score
Chief executive	74%	26%
Chief financial officer	69%	31%

#### Incentive share plan 2015 (audited)

The ISP is a conditional share award. The committee assesses the performance conditions to 31 March 2018 and the awards would ordinarily vest in May 2018. 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. As disclosed in the 2016 Directors' Remuneration Report, after completion of the EE acquisition in January 2016, the free cash flow and revenue measures were adjusted to reflect the enlarged group.

As set out in the table below, the threshold performance target in respect of each measure was not met and therefore the awards will lapse in full in May 2018.

40% Total shareholder return		40% Normalised free cash flow		20% Underlying revenue growth (excluding transit)	
Performance	Outcome	Performance	Outcome	Performance	Outcome
Threshold target 12th	20th = target not met	Threshold target	£8.58bn = target not met	Threshold target 5.79%	0.72% = target not met

#### Total pension entitlements (audited)

We closed the BT Pension Scheme (BTPS) to new entrants on 31 March 2001. None of the executive directors participate in future service accrual in the BTPS.

New UK employees are eligible to join a defined contribution scheme, typically a 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.

Gavin Patterson receives an annual allowance equal to 30% of salary in lieu of pension provision as set out in the table on page 161. Gavin has previously been a member of the BTRSS but neither he nor the company has made any contribution to the scheme during 2017/18. BT also provides death in service cover consisting of a lump sum equal to four times his salary plus a dependant's pension equal to 30% of his capped salary.

Simon Lowth receives an annual allowance equal to 30% of salary in lieu of pension provision as set out in the table on page 161. Simon has not previously been a member of any of the company pension schemes. BT also provides death in service cover consisting of a lump sum equal to four times his salary plus a dependant's pension equal to 30% of his capped salary.

Jan du Plessis is not a member of any of the company pension schemes. The company has made no payments towards his retirement provision and provided no life cover benefit.



## Awards granted during the year (audited)

### 2017 ISP awards

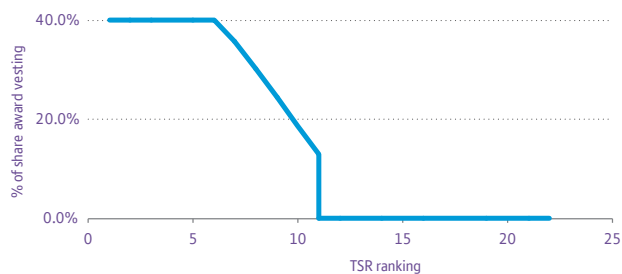
The 2017 ISP awards were made in June 2017 as set out below and on page 167. As agreed by the committee in 2017, as a result of the fall in BT's share price over the previous year, the committee reduced the award to Gavin Patterson from 400% of salary to 350% of salary. The award for Simon Lowth was 350% of salary.

Director	Date of award	ISP award (shares)	Face value of award <sup>a</sup>
Gavin Patterson	22 June 2017	1,218,186	£3,488,884
Simon Lowth	22 June 2017	855,446	£2,449,997

<sup>a</sup> Face value based on share price at the date of grant of 286.40p. The grant price is calculated using the average middle-market price of a BT share for the three days prior to grant.

The ISP is a conditional share award. Performance conditions attached to the awards 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 from 1 April 2017 to 31 March 2020. The performance conditions are the same for both directors. The table below sets out the target ranges for TSR, the normalised free cash flow and underlying revenue growth excluding transit for the three-year performance period 2017/18 to 2019/20.

### TSR vesting schedule 2017 awards



The TSR comparator group is unchanged from the 2016 awards.

### Financial targets

Measure 2017/18–2019/20	Threshold	Level of vesting	Maximum	Level of vesting <sup>a</sup>
Normalised free cash flow	£7.92bn	25%	£8.92bn	100%
Underlying revenue growth (excluding transit)	1.8%	25%	4.0%	100%

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

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.

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

The awards are subject to a further holding period of two years, commencing from the end of the performance period and applied to the net number of shares received after tax and other statutory deductions. During the holding period, no further performance measures will apply.

### 2017 deferred shares (DBP)

We awarded a proportion of the 2016/17 annual bonus in deferred shares. The table below provides further details.

As disclosed in the 2017 Directors' Remuneration Report, despite some of the bonus performance targets being met, the committee exercised discretion and determined that no bonus would be awarded to the chief executive and he therefore received no deferred share awards.

Director	Date of award	DBP award (shares)	Face value of award <sup>a</sup>
Gavin Patterson	N/A	N/A	N/A
Simon Lowth	22 June 2017	42,014	£ 120,328

<sup>a</sup> Face value based on share price at grant of 286.40p. The grant price is calculated using the average middle-market price of a BT share for the three days prior to grant.

The DBP is a conditional share award. Deferred shares are not subject to performance conditions and will vest in three years subject only to continued employment. Details of all interests in deferred shares are set out on page 166.

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

### Former directors (audited)

Tony Chanmugam started drawing his retirement benefits on 6 April 2017. During 2017/18 Tony received a total of £574,929 from the BT Pension Scheme. This consisted of a pension commencement lump sum payment of £375,000 and monthly pension payments totalling £199,929. In addition, all benefits were commuted under the pre-existing unfunded pension arrangement from BT, and Tony received a one-off taxable lump sum of £1,610,411.

Phil Hodgkinson retired as a non-executive director on 31 January 2016 but continues to be a member of the *Committee for Sustainable and Responsible Business*, for which he 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 (audited)

The committee believes that the interests of the executive directors should be closely aligned with those of shareholders.

To this end, the chief executive is required to build up a shareholding equal to 300% of salary, and the chief financial officer 250% of salary. The aim is to encourage the build up of a meaningful shareholding in the company over time by retaining shares received under an executive share plan (other than shares sold to meet tax and other statutory deductions) or from purchases in the market.

We use the average BT share price over the preceding 12 months (or the share price at acquisition date if higher) to determine whether the minimum shareholding requirement has been reached.

The table below sets out the shareholding requirement position as at 31 March 2018. As a relatively new director, Simon has not yet received any vested shares under the executive share plans and did not receive a buyout on appointment. Simon's current shareholding is as a result of personal purchases in the market.

Executive director	Personal shareholding as a percentage of salary
Gavin Patterson	939%
Simon Lowth	4%

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 the three-year period. Full details of all ISP and DBP awards, including performance periods and vesting conditions, are set out on pages 166 to 167.

#### Unvested interests in shares (audited)

	ISP (subject to performance)		DBP (not subject to performance)	
	1 April 2017	31 March 2018	1 April 2017	31 March 2018
Gavin Patterson	3,046,654	3,354,841	334,944	127,638
Simon Lowth <sup>a</sup>	628,928	1,568,600	N/A	44,397

<sup>a</sup> Simon Lowth joined the Board in July 2016 and was granted his first DBP award in June 2017.

During the period 1 April 2018 to 9 May 2018, there were no movements in unvested interests in shares.

The table below shows share options held by the directors under the company's all-employee saveshare plans as at 31 March 2018. None of the directors held share options with performance conditions.

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

	Share options at 1 April 2017	Options granted during year	Options exercised during year	Value at date of exercise (£)	31 March 2018
Gavin Patterson	5,642	–	–	–	5,642
<b>Former director</b>					
Sir Michael Rake <sup>a</sup>	5,172	–	–	–	5,172

<sup>a</sup> Sir Michael Rake retired as a director on 31 October 2017 and the number reflects his options at that date.

The directors exercised no saveshare options during the year. There were no vested but unexercised options at the year-end.

#### Directors' interests at 31 March 2018 or date of retirement, if earlier (audited)

The following table shows 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 2018 and 1 April 2017, or at date of appointment if later.

Beneficial holdings	Number of shares	
	31 March 2018	1 April 2017
Jan du Plessis <sup>a</sup>	400,000	N/A
Gavin Patterson <sup>b</sup>	2,943,453	2,871,032
Simon Lowth	10,536	–
Sir Michael Rake <sup>b c</sup>	166,061	148,721
Tony Ball	193,871	93,871
Iain Conn	19,442	19,442
Tim Höttges	–	–
Isabel Hudson	15,090	8,424
Mike Inglis	4,599	2,600
Karen Richardson <sup>d</sup>	13,525	13,525
Nick Rose	300,000	125,000
Jasmine Whitbread	11,289	7,990
<b>Total</b>	<b>4,077,866</b>	<b>3,290,605</b>

<sup>a</sup> Jan du Plessis joined the Board on 1 June 2017 and became chairman on 1 November 2017.

<sup>b</sup> Includes shares purchased under directshare and free shares awarded under UK allshare.

Directshare is an 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>c</sup> Sir Michael Rake retired as a director on 31 October 2017 and the number reflects his holding at that date.

<sup>d</sup> Shares are held as 2,705 American Depositary Shares (ADS). One ADS equates to five BT ordinary shares.

During the period 1 April 2018 to 9 May 2018, 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 helps avoid any conflict of interest in relation to Tim's ongoing employment as CEO of Deutsche Telekom.

### Deferred bonus plan awards at 31 March 2018 (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.

Tony Chanmugam retired from the Board on 13 July 2016. All payments made to Tony in respect of 2015/16 were reported in the 2016 Directors' Remuneration Report. The committee considered the treatment of Tony's outstanding share awards under the DBP. Given that his departure was by mutual agreement with the company and an orderly transition was put in place, he was considered a good leaver for the purposes of the DBP. Subject to the application of malus as described in footnote b below, his unvested DBP awards were preserved until their normal vesting date. Following further committee discussion and consideration, the committee exercised its discretion and applied the malus provisions under the DBP to reduce the number of shares under Tony's outstanding DBP awards to zero. This will be applied in 2018/19.

	1 April 2017	Awarded <sup>a</sup>	Dividends re-invested	Vested	Lapsed <sup>b</sup>	Total number of award shares 31 March 2018	Vesting date	Price at grant	Market price at vesting	Monetary value of vested award £000
<b>Gavin Patterson</b>										
DBP 2014	138,952	–	–	131,709	(7,243)	–	01/08/2017	384.20p	312.5p	412
DBP 2015	105,028	–	5,059	–	(15,867)	94,220	01/08/2018	449.50p	–	–
DBP 2016	90,964	–	1,793	–	(59,339)	33,418	01/08/2019	403.18p	–	–
DBP 2017 <sup>c</sup>	–	–	–	–	–	–	–	–	–	–
<b>Simon Lowth<sup>d</sup></b>										
DBP 2017	–	42,014	2,383	–	–	44,397	01/08/2020	286.40p	–	–
<b>Former director</b>										
<b>Tony Chanmugam</b>										
DBP 2014	147,828	–	8,196	–	(3,367)	152,657	01/08/2017	384.20p	–	–
DBP 2015	56,739	–	2,696	–	(9,214)	50,221	01/08/2018	449.50p	–	–
DBP 2016	50,537	–	909	–	(34,490)	16,956	01/08/2019	403.18p	–	–

<sup>a</sup> Awards granted on 22 June 2017. 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 2018 will be calculated using the average middle market price of a BT share for the three days prior to grant.

<sup>b</sup> As a result of investigations into improper accounting practices in BT's Italian business, as reported in 2017, the committee exercised discretion and applied the malus provisions in the Deferred Bonus Plan to reduce the number of shares under award. The application of the malus provisions was calculated based on the share price at the original grant.

<sup>c</sup> The committee exercised its discretion and determined that no bonus would be awarded to Gavin Patterson in respect of 2016/17. This resulted in no 2017 DBP award being made.

<sup>d</sup> Simon Lowth joined the Board in July 2016 and was granted his first DBP award in June 2017.

## Share awards under long-term incentive schemes held at 31 March 2018 (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 2017	Awarded	Dividends re-invested	Vested	Lapsed	Total number of award shares 31 March 2018	Performance period end	Price on grant	Market price at vesting	Monetary value of vested award £000
<b>Gavin Patterson</b>										
ISP 2014 <sup>a</sup>	1,090,141	–	–	–	(1,090,141)	–	31/03/2017	384.20p	–	–
ISP 2015 <sup>b</sup>	927,367	–	52,621	–	–	979,988	31/03/2018	449.50p	–	–
ISP 2016 <sup>c</sup>	1,029,146	–	58,397	–	–	1,087,543	31/03/2019	403.18p	–	–
ISP 2017 <sup>e</sup>	–	1,218,186	69,124	–	–	1,287,310	31/03/2020	286.40p	–	–
<b>Simon Lowth</b>										
ISP 2016 <sup>d</sup>	628,928	–	35,686	–	–	664,614	31/03/2019	405.38p	–	–
ISP 2017 <sup>e</sup>	–	855,446	48,540	–	–	903,986	31/03/2020	286.40p	–	–

<sup>a</sup> Award granted on 19 June 2014. 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 of 384.20p. 40% of the award is linked to TSR compared with a group of 22 other 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. Performance against the TSR, normalised free cash flow and revenue targets resulted in the threshold targets not being met and none of the shares vesting under the 2014 ISP. The award lapsed in May 2017.

<sup>b</sup> Award granted on 18 June 2015. 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 of 449.50p. 40% of the award is linked to TSR compared with a group of 22 other 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. Performance against the TSR, normalised free cash flow and revenue targets resulted in the threshold targets not being met and none of the shares vesting under the 2015 ISP. The award will lapse in May 2018.

<sup>c</sup> Award granted on 20 June 2016. 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 of 403.18p. 40% of the award is linked to TSR compared with a group of 21 other 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.

<sup>d</sup> Award granted on 29 July 2016. 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 of 405.38p. 40% of the award is linked to TSR compared with a group of 21 other 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.

<sup>e</sup> Awards granted on 22 June 2017. 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 286.40p. 40% of the award is linked to TSR compared with a group of 21 other 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 2018 (audited)

### Number of shares under option:

	1 April 2017	Granted	Lapsed	Exercised	31 March 2018	Option price per share	Market price at date of exercise	Usual date from which exercisable	Usual expiry date	
Gavin Patterson	5,642 <sup>a</sup>	–	–	–	5,642	319p	–	01/08/2019	01/02/2020	
<b>Former director</b>										
Sir Michael Rake <sup>b</sup>	5,172 <sup>a</sup>	–	–	–	5,172	319p	–	01/08/2019	01/02/2020	

All of the above options were granted for nil consideration.

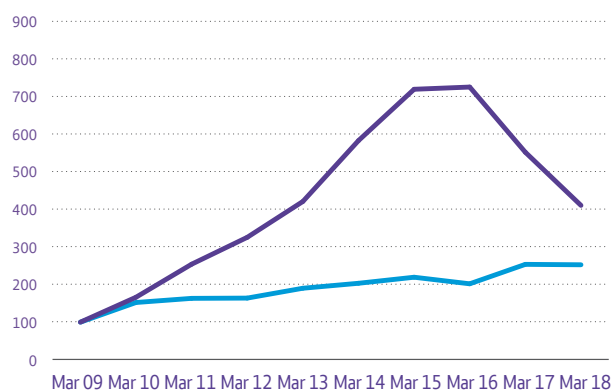
<sup>a</sup> Option granted on 26 June 2014 under the employee saveshare scheme, in which all employees of the company are entitled to participate.

<sup>b</sup> Sir Michael Rake retired as a director on 31 October 2017 and the number reflects the number of shares under option at that date. The options were exercisable up to 30 April 2018.

## Comparison of chief executive remuneration to total shareholder return (unaudited)

Total shareholder return (TSR) is the measure of the returns that a company has provided for its shareholders, reflecting share price movements and assuming reinvestment of dividends. The graph below illustrates the performance of BT Group plc measured by TSR relative to a broad equity market index over the past nine years. We consider the FTSE100 to be the most appropriate index against which to measure performance, as BT has been a member of the FTSE100 throughout the nine-year period, and the index is widely-used.

### 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 nine years.

## History of chief executive remuneration

Year end	Chief Executive	Total rem £000	Annual bonus (% of max)	ISP vesting (% of max)
2018	Gavin Patterson	2,307	54%	0%
2017	Gavin Patterson	1,345	0%	0%
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 (unaudited)

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've used the UK management and technical employee population representing around 23,209 people. We believe this broad group provides the most meaningful comparison as they have similar performance related pay arrangements as our executive directors.

	Salary	Benefits <sup>a</sup>	Bonus <sup>b</sup>
% Change in chief executive remuneration	2.5%	+5.5%	N/A
% Change in comparator group <sup>c</sup>	2.5%	0%	+89.1%

<sup>a</sup> The increase in benefits for the chief executive was around £3,000.

<sup>b</sup> The bonus comparator is based on cash bonus only to give a better like-for-like comparison. No bonus was awarded to the chief executive in 2017.

<sup>c</sup> Comparator group is the UK management and technical employee population representing around 23,209 individuals.

## Relative importance of spend on pay (unaudited)

The table below illustrates the change in total remuneration and dividends and share buyback paid.

Area	2017/18 (£m)	2016/17 (£m)	% Change
Remuneration paid to all employees	5,400	5,189	4.07%
Dividends/share buybacks	1,746	1,642	6.33%

## Implementation of remuneration policy in 2018/19 (unaudited)

### Base salary

Having agreed no increases in 2017, the committee considered the base salaries for both executive directors. In line with the increases agreed for our managerial employees, we agreed 2.5% salary increases for both executive directors.

The table below sets out the 2018/19 base salaries for both executive directors. The increases are effective in June 2018.

	Base salary	% change
Chief executive	£1,022,000	+2.5%
Chief financial officer	£717,500	+2.5%

### Benefits

The committee has set benefits in line with the remuneration policy set out on pages 173 to 180. We propose no changes to the benefit framework for 2018/19.

### Pension

Levels of pension provision for 2018/19 are the same as for 2017/18. Executive directors receive an annual amount equal to 30% of salary in lieu of pension provision.

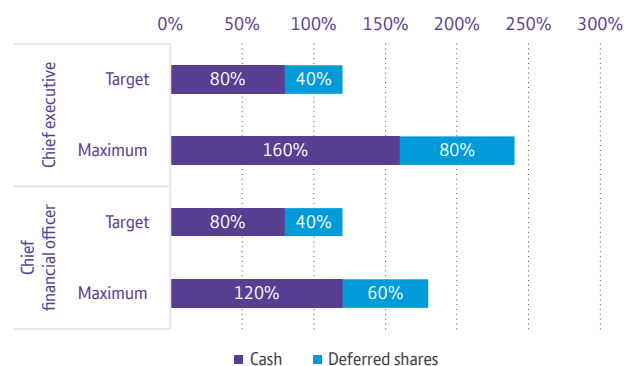
### Clawback and malus

Clawback provisions will apply to annual bonus payments relating to the 2018/19 financial year, and for the ISP awards that are expected to be made in June 2018.

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 table below describes the level of bonus opportunity (expressed as a percentage of salary) for the chief executive and chief financial officer. One third of any bonus will be deferred into shares for a period of three years.



The 2018/19 annual bonus structure and weighting is set out below.

### Chief executive and chief financial officer

% Weighting

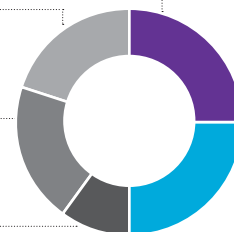
25% Adjusted earnings per share

20% Personal objectives

20% Customer experience

10% Revenue (excluding transit)

25% Normalised free cash flow



Adjusted earnings per share, normalised free cash flow, and revenue (excluding transit) have a direct impact on shareholder value. Customer experience (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 pages 24 to 25.

We don't publish details of the financial targets in advance as these are commercially confidential. We will publish achievement against these targets at the same time as we disclose bonus payments in the 2019 Directors' Remuneration Report so shareholders can evaluate performance against those targets.

The personal contribution measure is aligned to our strategy and is assessed by the chairman for the chief executive and by the chief executive for the chief financial officer and each senior executive, eg, CFU CEO. 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 committee reviewed the level of ISP award for both executive directors. In 2017 the level of ISP award for the chief executive was reduced from 400% of salary to 350% of salary in light of the share price fall in the year. This year the committee carefully considered reverting to an award of 400% of salary. However, in the light of the share price fall in the year it decided that an award of 350% of salary was fair. It is the committee's intention to revert to an award of 400% of salary next year assuming overall performance supports that move. An award of 350% of salary will also be made to the chief financial officer.

We expect to grant the awards in June 2018. Any shares acquired on the vesting of the 2018 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 2017 ISP: 40% based on relative TSR; 40% based on normalised free cash flow; and 20% growth in underlying revenue (excluding transit) over a three-year performance period.



## Annual remuneration report continued

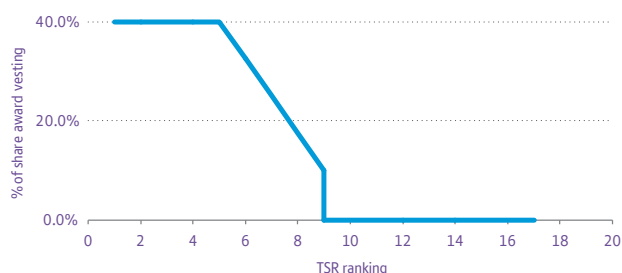
The committee reviewed BT's approach to TSR and the comparator group during the year following a number of changes to the business. The changes include strategic developments, the acquisition of EE and its integration into the consumer business, substantial investment in BT Sport and the legal separation of Openreach. The committee agreed a revised comparator group of 16 other companies for the 2018 awards as set out below.

**BT's TSR comparator group for the 2018 ISP will comprise the companies listed below.**

Centrica	Proximus	Telecom Italia
Deutsche Telekom	Sky	Telefónica
KPN	SSE	Telenor
Liberty Global	Swisscom	Telia Company
National Grid	TalkTalk	Vodafone
Orange		

### TSR vesting schedule 2018 awards

For the 2018 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.



### Financial targets

The table below sets out the target ranges for the normalised free cash flow and underlying revenue growth (excluding transit).

Measure 2018/19–2020/21	Threshold	Level of vesting	Maximum	Level of vesting <sup>a</sup>
Normalised free cash flow <sup>b</sup>	£6.4bn	25%	£7.4bn	100%
Underlying revenue (excluding transit) <sup>c</sup>	0.2%	25%	1.9%	100%

<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 25.

<sup>c</sup> Growth in underlying revenue (excluding transit) is defined on page 24.

The committee aims to set stretching targets that require strong outperformance for maximum vesting, yet remain realistic in the context of the significant investments in our networks that we need to make over the next three years. The committee recognises that the financial targets are lower than the 2017 ISP awards but considers that in the current economic and regulatory environment these targets represent an equivalent stretch to those set in prior years.

The targets above have been set on an IAS basis. The committee will review any impact arising from BT's transition to IFRS 15, applicable from 1 April 2018, during 2018/19. Any adjustments required as a result of the standard will be reported in the 2019 Directors' Remuneration Report.

## Chairman and non-executive director remuneration

The fees for non-executive directors were reviewed during the year. The last review of non-executive director fees was in January 2017 when no changes were made. 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. Following the review, the basic fee for a non-executive director was increased to £75,000 per year (from £72,000) from 1 January 2018. The chair and membership fees of the *BT Compliance Committee*, a sub-committee of the *Audit & Risk committee* formed during the year, were also agreed. Further detail on the *BT Compliance Committee* can be found on page 145.

Following the change in chairmanship of the *Committee for Responsible & Sustainable Business*, a chair fee of £12,000 was agreed. The chairman of the Board previously held this position and as such no chair fee was payable.

The committee agreed an increase to £4,000 (from £2,000) for the fee paid per trip to those non-executive directors travelling on an inter-continental basis to Board and Board committee meetings.

The *Integration Committee* was disbanded during the year. See page 139 for further detail.

The table below sets out the fees for membership of, or chairing a Board committee (including the changes agreed during the year):

Committee	Chairman's fee	Member's fee
Audit & Risk	£35,000	£25,000
BT Compliance <sup>a</sup>	£25,000 <sup>b</sup>	£12,000
Nominating & Governance	n/a <sup>c</sup>	£10,000
BT Pensions	£25,000	£10,000
Remuneration	£28,000	£15,000
Sustainable & Responsible Business	£12,000 <sup>d</sup>	£5,000
Technology	n/a <sup>c</sup>	£14,000
Equality of Access Board <sup>e</sup>	£72,500	n/a

<sup>a</sup> A sub-committee of the *Audit & Risk Committee*.

<sup>b</sup> Nil if the Equality of Access Board chair also chairs the *BT Compliance Committee*.

<sup>c</sup> Where the chairman or chief executive acts as chair of a Board committee, no additional committee chair fee is payable.

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

<sup>e</sup> External members of the Equality of Access Board receive an annual fee of £37,000.

The senior independent director receives an additional fee of £27,000 a year for that position.

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.

No review of the chairman's fee was undertaken. The committee agreed a five year fixed fee of £700,000 per year, on Jan du Plessis's appointment as chairman.



## Other remuneration matters

### Advisers

During the year, the committee received independent advice on executive remuneration matters from Deloitte LLP. Deloitte received £174,625 in fees for these services. The fees are charged on a time-spent basis in delivering advice. That advice 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, have no connections with BT that may impair their independence or objectivity.

In addition, during 2017/18, Deloitte 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 2018/19. Shares held in the Trust do not have any voting rights.

At the end of 2017/18, shares equivalent to 1.76% (2016/17: 1.89%) of the issued share capital (excluding treasury shares) would be required for all share options and awards outstanding.

Of these, we estimate that for 2018/19, shares equivalent to approximately 0.28% (2017/18: 0.45%) 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.

From 2018/19, the *Nominating & Governance Committee* will consider proposed external directorships and other external interests by executive directors, members of the ExCo and other senior direct reports to the chief executive.

### Voting at the 2017 Annual General Meeting

The table below sets out the votes cast in respect of the Annual Remuneration Report and the Remuneration Policy at the Annual General Meeting held on 12 July 2017.

	Votes cast in favour	%	Votes cast against	%
Approve Annual Remuneration Report	6,711,751,544	96.85%	218,449,483	3.15%
Approve Remuneration Policy	6,654,431,173	96.12%	268,487,768	3.88%

7,604,373 votes were withheld against approving the Annual Remuneration Report while 14,886,907 votes were withheld against approving the Directors' Remuneration Policy. Withheld votes are not counted when calculating voting outcomes.

### Committee evaluation 2017/18

As part of the Board evaluation, we evaluated the committee's effectiveness, having regard to the findings of the external facilitator and the inputs of others. We concluded that the committee operates efficiently and has benefited from the recent addition of two new members.

### 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 make clear that additional time may be required during periods of 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. 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.

See page 172 for further details of appointment arrangements for independent non-executive directors.

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 in January 2016 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 following table sets out the dates on which directors' service agreements/initial letters of appointment commenced and the current expiry dates:

Chairman and executive directors	Commencement date	Expiry date of current service agreement or letter of appointment
<b>Jan du Plessis</b>	1 June 2017	The agreement is terminable by the company on 12 months' notice and by the director on six months' notice.
<b>Gavin Patterson</b>	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.
<b>Simon Lowth</b>	6 July 2016	Terminable by the company on 12 months' notice and by the director on six months' notice.
<b>Non-executive directors</b>		
<b>Tony Ball</b>	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.
<b>Iain Conn</b>	1 June 2014	Letter of appointment was for an initial period of three years. The appointment was extended for a further three years in May 2017.
<b>Tim Höttges</b>	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.
<b>Isabel Hudson</b>	1 November 2014	Letter of appointment was for an initial period of three years. The appointment was extended for a further three years in October 2017.
<b>Mike Inglis</b>	1 September 2015	Letter of appointment was for an initial period of three years.
<b>Karen Richardson</b>	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 2017 following extension in 2014.
<b>Nick Rose</b>	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 2016 following extension in 2013.
<b>Jasmine Whitbread</b>	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 2016 following extension in 2013.

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.

#### Inspection by the public

The service agreements and letters of appointment are available for inspection by the public at BT's registered office. They will also be available for inspection commencing one hour prior to the start of our AGM, to be held in Edinburgh on 11 July 2018.

#### Tony Ball

**Chairman of the Remuneration Committee**

9 May 2018

## Remuneration policy

The following pages set out our directors' remuneration policy (the 'Policy') which was approved by shareholders at the AGM on 12 July 2017 in accordance with section 439A of the Companies Act 2006.

The votes cast in respect of the Policy at the 2017 AGM were as set out on page 171.

The Policy on pages 174 to 180 is a repeat of the Policy set out on pages 138 to 145 in the Annual Report & Form 20-F 2017. As such all page cross-references within the repeated Policy are to the respective pages in the Annual Report & Form 20-F 2017. 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 believe it's helpful when reading the Annual Remuneration Report.

## Legacy matters

The committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy where the terms of the payment were agreed (i) before the AGM in 2014 (the date the company's first shareholder-approved directors' remuneration policy came into effect); (ii) before this Policy came into effect, provided that the terms of the payment were consistent with the shareholder-approved directors' remuneration policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a director of the company and, in the opinion of the committee, the payment was not in consideration for the individual becoming a director of the company. For these purposes "payments" includes the committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted. 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.