

Remuneration Policy

This section of the report sets out our directors' remuneration policy (Policy), which will be put forward for shareholder approval at the 2020 AGM on 16 July 2020. Subject to approval, this Policy will become effective on that date.

The key changes to executive director remuneration between this Policy and the previous Policy approved by shareholders at the 2017 AGM are as follows:

- Replacement of the performance-linked Incentive Share Plan (ISP) with the Restricted Share Plan (RSP), under which awards of restricted shares will be granted
- Reduction in the maximum bonus opportunity from 240% to 200% of salary
- Increase in the minimum bonus deferral amount from one third to 50%

- Reduction in pension allowances for new appointments to align with the majority workforce level of contribution (currently 10% of salary in the UK). We have also reduced pension rates for existing executive directors
- Increase in the executive director shareholding requirement to 500% of salary, to further strengthen the alignment between the executive directors and shareholders
- Extension of the shareholding requirement for a period of two years post-cessation of employment, to align with the requirements of the Code.

 Further details on the proposed changes are described in the committee chair's letter on pages 84 to 87. Details on how the Policy will be implemented in the coming financial year are provided on page 104.

Executive directors

F
Base salary
 Purpose – a core element of remuneration, used to attract and retain executive directors of the calibre required to develop and deliver our business strategy

Operation

Salaries are reviewed annually, although an out-of-cycle review may be conducted if the committee determines it appropriate. A review may not necessarily lead to an increase in salary.

Salaries are paid monthly in cash.

The committee takes into account a number of factors when setting salaries, including (but not limited to):

- size and scope of the individual's responsibilities
- the individual's skills, experience and performance
- typical salary levels for comparable roles within appropriate pay comparators; and
- pay and conditions for our wider employee population.

Maximum opportunity

Whilst there is no maximum salary level, any increase will typically be broadly in line with our wider employee population.

Higher increases may be made under certain circumstances, such as:

- increase in the scope and/or responsibility of the individual's role
- development of the individual within their role; and
- where an executive director has been appointed to the Board at a lower than typical level of salary, for example to reflect a lower level of experience, larger increases may be awarded to move them closer to the market rate as their experience develops.

Performance measures

None

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Benefits
 Purpose – to support health and wellbeing and provide employees with a market-competitive level of benefits

Operation

Executive directors receive benefits which typically include (but are not limited to) car benefits (which may include any of a company car, cash allowance in lieu, fuel allowance, and driver), personal telecommunication facilities and home security, medical and dental cover for the directors and their immediate family, life cover, professional subscriptions, personal tax advice and financial counselling up to a maximum of £5,000 (excluding VAT) a year.

Where executive directors are required to relocate, the committee may offer reasonable and limited relocation benefits, and additional expatriate benefits, if considered appropriate.

Expenses incurred in the performance of an executive director's duties for the company may be reimbursed (including any relevant taxes due thereon) or paid directly by the company, as appropriate.

The company purchases directors' and officers' liability insurance to cover the directors, and has in place a directors' and officers' indemnity. The insurance operates to protect the directors in circumstances where, by law, BT cannot provide the indemnity.

Further details of the directors' and officers' liability insurance and indemnity are set out on page 111.

Maximum opportunity

While no maximum level of benefits is prescribed, they are generally set at an appropriate market-competitive level determined by the committee, taking into account a number of factors including:

- the jurisdiction in which the employee is based
- the level of benefits provided for other employees within the group; and
- market practice for comparable roles within appropriate pay comparators in that jurisdiction.

The committee keeps the benefit policy and benefit levels under regular review.

Performance measures

None

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Pension

Purpose – to attract and retain executive directors of the right calibre by providing market competitive post-retirement income.

Operation

Executive directors currently receive a cash allowance in lieu of pension. The committee may determine that alternative pension provisions will operate for new appointments to the Board. When determining pension arrangements for new appointments, the committee will give regard to:

- the cost of the arrangements
- pension arrangements received elsewhere in the group; and
- relevant market practice.

Maximum opportunity

For newly-appointed executive directors, the maximum cash allowance (or equivalent contribution to an executive director's pension) may not exceed the equivalent level of pension contribution offered to the majority of the workforce in their local jurisdiction (currently 10% of salary in the UK).

Existing executive directors were eligible for higher level of pension allowance under the terms of the previous Policy. The chief executive's allowance has been reduced to 10% of salary from 2020/21, while the chief financial officer's allowance has been reduced from 30% to 20% of salary for 2020/21, and will be further reduced to 15% of salary for 2021/22 and to 10% of salary for 2022/23.

Performance measures

None

V

Annual bonus

Purpose – to incentivise and reward delivery of our business plan on an annual basis

Operation

Executive directors are eligible for an annual bonus.

Awards are based on performance in the relevant financial year, and are not pensionable.

Up to half of any bonus earned will be paid in cash, with the remainder granted in the form of deferred shares to further strengthen the alignment of management's interests with the long-term interests of shareholders. Deferred share awards will vest, subject to continued employment, after three years.

The committee has full discretion to adjust outcomes under the annual bonus plan up or down where:

- the formulaic outcome does not reflect the underlying financial or non-financial performance of the company
- the payout level is not appropriate in the context of circumstances that were unexpected or unforeseen at the start of the year; and/or
- there exists any other reason why an adjustment to the level of bonus payout is appropriate.

Both cash and deferred elements are subject to the company's malus and clawback provisions, which are described in more detail on page 97.

Maximum opportunity

The maximum annual bonus opportunity for the executive directors is 200% of base salary.

25% of the maximum under each element is payable for threshold performance.

Performance measures

The committee sets annual bonus performance measures and targets each year, taking into account key strategic priorities and the approved budget for the year.

Measures used typically include, but are not limited to:

- financial performance measures – these are chosen carefully to ensure alignment between reward and underlying financial performance. As an example, such measures may include free cash flow and EBITDA; and
- non-financial performance measures – these reflect key company and strategic goals. For example, such measures may include customer, network and sustainability goals.

Financial measures will typically account for at least 50% of the total annual bonus.

The committee ensures that targets set are appropriately stretching in the context of the corporate plan, as well as other internal and external factors, and that there is an appropriate balance between incentivising executive directors to meet targets, while ensuring that they do not drive unacceptable levels of risk or inappropriate behaviours.

Remuneration Policy continued

Executive directors continued



Restricted Share Plan (RSP)

Purpose – to provide a simple, long-term element of reward which creates alignment with our shareholders.

Operation

Executive directors are eligible to participate in the RSP, which forms the long-term variable element of executive remuneration.

Awards are discretionary and normally vest, subject to continued employment, in three equal tranches after three, four and five years. The net number of shares vesting (i.e. after tax and other statutory deductions) under the first two tranches are subject to a further holding period until year five.

The committee has full discretion to adjust the number of shares vesting up or down where:

- the vesting outcome does not reflect the underlying financial or non-financial performance of the company
- the vesting level is not appropriate in the context of circumstances that were unexpected or unforeseen at the start of the year; and/or
- there exists any other reason why an adjustment to the level of vesting of the award is appropriate.

Vested and unvested RSP awards are subject to the company's malus and clawback provisions, which are described in more detail on page 97.

Maximum opportunity

Under normal circumstances, awards granted to executive directors in respect of any financial year may be no higher than 200% of salary.

Under exceptional circumstances, for example on recruitment, a higher limit of 250% of salary applies.

Performance measures

RSP awards are subject to one or more underpins over a period of three financial years commencing with the year in which the awards were granted.

These underpins are designed with the protection of the company in mind, to ensure an acceptable threshold level of performance is achieved and that vesting is warranted. The underpins applying to each award will be determined by the committee each year, but may include for example a return on capital threshold, or assurance that there has been no environmental, social or governance issue resulting in material reputational damage.

If the underpins are not met, the committee may consider a reduction to the final vesting level of the RSP awards (including to nil). Even if met, the committee retains discretion to reduce the vesting level in exceptional circumstances, should it not be an accurate reflection of the underlying performance of the business over the relevant period.

All-employee share plans

Purpose – to encourage wider employee share ownership.

Operation

Executive directors may participate in any all-employee share plans operated by the company on the same basis as other eligible employees.

Maximum opportunity

All participants may participate up to the limits operated by the company at the time set in line with statutory limits.

Performance measures

None.

Shareholding requirement

Purpose – to ensure that executive directors build and hold a stake in the company, providing alignment with shareholders' interests.

Operation

Executive directors are required to build up and maintain a shareholding equivalent to 500% of their annual salary. This should be achieved within five years of adoption of this Policy, or appointment to the Board (whichever is later).

Shares counted towards satisfaction of the requirement include all beneficially-owned shares, vested share awards subject to a holding period, and all incentive awards that are subject to continued service only (including Deferred Bonus Plan (DBP), and RSP awards subject to underpins), counted on a net-of-tax basis.

Until such time that the requirement has been satisfied, executive directors will not be permitted to sell any vesting incentive awards (other than to satisfy tax or other statutory liabilities on vesting, or at the discretion of the committee in exceptional circumstances).

The shareholding requirement will continue to apply for a period of two years post-cessation of employment, to the same value as in employment (or the total number of shares held immediately prior to cessation of employment, if lower).

Maximum opportunity

N/A

Performance measures

None

Chairman and non-executive directors

Chairman fees

Chairman

Core element of remuneration, paid for fulfilling the relevant role.

Operation

The chairman of the Board receives a single all-encompassing fee for his role, inclusive of any additional responsibility fees, paid monthly in cash.

The chairman is also eligible for certain benefits in line with those which may be offered to executive directors, other than any pension benefits, and may receive a lump sum death in service benefit of £1m.

Expenses incurred in the performance of non-executive duties for the company may be reimbursed (including any relevant taxes due thereon) or paid directly by the company, as appropriate.

The chairman is eligible to participate in any all-employee share plans operated by the company on the same basis as other eligible employees.

Opportunity

The fees are set at a level which is considered appropriate to attract and retain a chairman of the necessary calibre.

Fee levels are normally set by reference to the level of fees paid to Board chairs of similarly-sized, UK-listed companies, taking into account the size, responsibility and time commitment required of the role.

Fee may be reviewed (but not necessarily increased) on an annual basis.

Current fee levels can be found in the **Annual Report on Remuneration** on page 105.

The company's Articles of Association provide the maximum aggregate fee payable. The maximum is based on non-executive director fees benchmarked as at 1 April 1999 with increases linked to the Retail Price Index.

Other non-executive director fees

Other

non-executive directors

Core element of remuneration, paid for fulfilling the relevant role.

Operation

Non-executive directors receive a basic fee, paid monthly in cash in respect of their Board duties.

Further fees may be paid for additional responsibilities, including chairmanship or membership of Board committees, or for the role of senior independent director or for holding the role of designated non-executive director for workforce engagement.

Additional fees of up to £6,000 may also be payable to non-executive directors undertaking regular intercontinental travel to attend Board and committee meetings.

Non-executive directors are not eligible for annual bonus, share incentives, pensions or other benefits.

Reasonable expenses incurred in the performance of non-executive duties for the company may be reimbursed (including any relevant taxes due thereon) or paid directly by the company, as appropriate.

Opportunity

Fees are set at a level which is considered appropriate to attract and retain non-executive directors of the necessary calibre.

Fee levels are normally set by reference to the level of fees paid to non-executive directors serving on boards of similarly-sized, UK-listed companies, taking into account the size, responsibility and time commitment required of the role.

Fees may be reviewed (but not necessarily increased) on an annual basis.

Current fee levels can be found in the **Annual Report on Remuneration** on page 105.

The company's Articles of Association provide the maximum aggregate fee payable. The maximum is based on non-executive director fees benchmarked as at 1 April 1999 with increases linked to the Retail Price Index.

Notes to the Policy table

1. For further information on the performance measures and underpins applicable to the annual bonus and RSP see page 104.
2. In the event of death, the chief financial officer receives a dependent pension provision of 30% of salary (capped), as a legacy provision payable under the previous Policy.
3. Common award terms

Awards under any of the company's share plans referred to in this report may:

- incorporate the right to receive the value of dividends that would have been paid on the shares subject to an award that vests, which may be calculated assuming the shares were reinvested in shares on a cumulative basis. This value will normally be delivered in the form of additional shares
- be granted as conditional share awards, nil cost options or in such other form that the committee determines has the same economic effect
- have any performance conditions applicable to them varied or substituted by the committee if an event occurs which causes the committee to determine that the performance conditions no longer achieve their original purpose, provided that the varied or substituted performance condition would be not be materially less difficult to satisfy; and
- be adjusted in the event of any variation of the company's share capital or any demerger, special dividend or other event that may affect the current or future value of awards.

Remuneration Policy continued

Recruitment

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

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

The maximum level of variable pay (excluding buyouts, for which see below) which may be awarded in respect of a recruitment event (internal or external), will not exceed 450% of base salary, representing the current maximum award under the annual bonus and RSP.

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

In making buyout awards, the committee may use the relevant provision in the Listing Rules. This allows for the granting of awards specifically to facilitate, in unusual circumstances, the recruitment of an executive director, without seeking prior shareholder approval. In doing so, the committee will comply with the relevant provisions in force at the time.

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

In the event of the appointment of a new non-executive director, remuneration arrangements will be in line with those detailed on page 93.

Payment for loss of office

In a departure event, the committee will typically consider:

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

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

This provides the committee with the maximum flexibility to review the facts and circumstances of each case, allowing differentiation between good and bad leavers and avoiding 'payment for failure'.

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

These include:

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

| Plan | Good leaver | Bad leaver |
|------------|--|---|
| DBP | Retained in full, vesting on normal timeframe. In the case of death, awards are accelerated such that they vest on the date of death. | Forfeit on cessation, subject to discretion |
| RSP | Retained, subject to pro-rata for portion of the three-year initial vesting period served, vesting on the normal timeframe, subject to the satisfaction of any performance conditions or underpins. The post-vesting holding period continues to apply as normal. On death, awards are accelerated such that they vest on the date of death. All retained awards are subject to pro-rata for the portion of the three-year initial vesting period served, and subject to the committee's assessment of satisfaction of any performance conditions or underpins applying, measured at or close to the date of death. | Forfeit on cessation, subject to discretion |

In some cases, the treatment is formally prescribed under the rules of the relevant plan so that where there are 'good leaver' circumstances, including death, injury, ill-health, disability, redundancy or sale of the company or business.

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

All-employee plans

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

Change of control

In the event of a takeover or scheme of arrangement involving the company, long-term incentive and DBP awards will vest, at a minimum, to the extent that any applicable performance measures have been satisfied at the time (subject to the committee's discretion to determine the appropriate level of vesting, having regard to such relevant factors as it decides to take into account). If the acquiring company offers to exchange awards over BT shares for awards over its shares (or shares in another company), awards may be exchanged and continue under the rules of the relevant plan. If within 12 months of a

change of control, a participant's employment is terminated by their employer other than for misconduct or performance or they resigned as a result of a reduction of their duties or responsibilities constituting a material breach of the individual's contract, the participant is entitled to receive an amount equal to the difference between the value they received on the change of control and the amount they would have received if the relevant performance condition had been met in full.

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

Executive director and chairman service contracts

The other key terms of the service contracts for the current executive directors and the chairman are set out below. The termination provisions described above are without prejudice to BT's ability in appropriate circumstances to terminate in breach of the notice period referred to above, and thereby be liable for damages to the executive director or chairman.

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

Where appropriate, BT may also meet a director's reasonable legal expenses in connection with either his or her appointment or termination of his or her appointment. The company may, where appropriate and reasonable, cover the cost of outplacement services.

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

| | |
|----------------------------------|---|
| Notice period | <ul style="list-style-type: none"> 12 months' notice by the company, six months' notice by the executive director or chairman (there is no fixed expiry date). |
| Termination payment | <ul style="list-style-type: none"> In lieu of giving an executive director or the chairman 12 months' notice, BT may terminate the director's contract and make a payment in lieu of notice to which the director was entitled if he or she had received salary and the value of contractual benefits for the period In respect of the executive directors, the payments in lieu will be payable in equal monthly instalments until the date on which the notice period would have expired or (if earlier) the date on which the director secures alternative employment with the same or higher basic salary or fee. In the event that the director secures alternative employment at a basic salary of £30,000 or higher, but lower than their salary, payment in lieu will be reduced by the amount of the new lower salary received. The Board retains the right to lower the payment in lieu of the directors new employment if it considers the new employment terms of the director are not appropriately balanced between basic salary and other elements, and may cease making payments entirely where the Board is not satisfied the director is making reasonable efforts to secure alternative employment In respect of the chairman, the payment in lieu will be payable in equal monthly instalments until the earlier of 12 months from the date of termination or the date the chairman secures alternative equivalent employment. |
| Remuneration and benefits | <ul style="list-style-type: none"> Participation in the annual bonus, long-term incentive and other share plans, is non-contractual. The chairman does not participate in the long-term incentive plans, DBP or any annual bonus Other benefits which typically include (but are not limited to) car benefits (which may include any of a company car, cash allowance in lieu, fuel allowance, and driver), personal telecommunication facilities and home security, medical and dental cover for the directors and their immediate family, life cover, professional subscriptions, personal tax advice and financial counselling up to a maximum of £5,000 (excluding VAT) a year. The chairman does not receive pension benefits but is entitled to all other benefits The chairman receives an all-inclusive fee for the role. |

Remuneration Policy continued

Illustration of executive director pay scenarios

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

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

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

| | | |
|--------------------------|--|--|
| F Fixed pay | All scenarios | <p>Consists of total fixed pay – base salary, benefits and pension:</p> <ul style="list-style-type: none"> • Base salary – salary effective as at 1 June 2020 • Benefits – value of benefits provided to each director in 2019/20 • Pension – cash allowances effective 1 April 2020 (10% of salary for the chief executive and 20% of salary for the chief financial officer). |
| | Minimum | <ul style="list-style-type: none"> • No payout under the annual bonus • No vesting under the RSP. |
| | On-target | <ul style="list-style-type: none"> • On-target payout under the annual bonus of 120% of salary • Full vesting of the RSP at 200% of salary. |
| | Maximum | <ul style="list-style-type: none"> • Maximum payout under the annual bonus of 200% of salary • Full vesting of the RSP at 200% of salary. |
| V Variable pay | Maximum +50% share price increase | <ul style="list-style-type: none"> • Maximum payout under the annual bonus of 200% of salary • Full vesting of the RSP at 200% of salary, with a 50% share price increase applied. |

Fixed pay is calculated as follows:

| £000 | Salary | Benefits | Pension | Total fixed pay |
|-------------------------|--------|----------|---------|-----------------|
| Chief executive | 1,100 | 114 | 110 | 1,324 |
| Chief financial officer | 735 | 24 | 147 | 906 |

RSP awards have been shown at face value, with no share price growth or discount rate assumptions, other than the fourth scenario which includes an uplift of 50% on the restricted share awards. All-employee share plans have been excluded, as have any legacy awards held by executive directors.

Chief executive



Chief financial officer



Malus and clawback

Both annual bonus and long-term incentive arrangements are subject to malus and clawback.

Under the malus provision, the committee may apply its discretion to reduce (including to nil) any DBP, ISP or RSP award prior to the award vesting, if facts become known to the committee which justify a reduction.

Under the clawback provision, the committee has discretion to require an employee to pay back to the company part or all of the cash part of the annual bonus within one year of payment. The committee also has discretion to require an employee to pay back part or all of a vested long-term incentive plan award within two years of the award or respective tranche vesting.

The circumstances in which the committee may consider it appropriate to apply clawback and/or malus include, but are not limited to:

- behaviour by a participant which fails to reflect the company's governance and business values
- the extent to which any condition was satisfied was based on an error, or on inaccurate or misleading information or assumptions which resulted either directly or indirectly in an award being granted or vesting to a greater extent than would have been the case had that error not been made
- material adverse change in the financial performance of the company or any division in which the participant works and/or worked
- a material financial misstatement of the company's audited financial accounts (other than as a result of a change in accounting practice)
- any action which results in or is reasonably likely to result in reputational damage to the company
- a material failure in risk management
- corporate failure
- negligence or gross misconduct of a participant; and/or
- fraud effected by or with the knowledge of a participant.

Other elements of remuneration are not subject to malus and clawback provisions.

Consideration of remuneration arrangements throughout the group

The committee considers the pay and conditions of employees throughout the company when determining the remuneration arrangements for executive directors, and is provided with relevant information and updates by the group HR director.

 Further detail on pay conditions within the company are provided in **Remuneration in context** on page 108.

Consideration of shareholder views

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

The committee will continue to engage with shareholders and will aim to consult on any material changes to the Policy or other relevant matters.

Legacy matters

The committee can make remuneration payments and payments for loss of office outside of the Policy set out above where the terms of the payment were agreed (i) before the Policy set out in this report came into effect, provided that the terms of the payment were consistent with any applicable policy in force at the time they were agreed; or (ii) at a time when the relevant individual was not a director of the company (or another person to whom the Policy set out above applies) and that, in the opinion of the committee, the payment was not in consideration for the individual becoming a director of the company (or such other person). This includes the exercise of any discretion available to the committee in connection with such payments. For these purposes, payments include 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.

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.