

Report on directors' remuneration

Committee chair's letter

“ This year our focus has been on engaging with shareholders on a broad range of remuneration issues including a new remuneration policy.



Attendance

Member	Attended	Eligible to attend
Nick Rose (chair)	9	9
Ian Cheshire ^a	1	1
Isabel Hudson	9	9
Mike Inglis	9	9
Matthew Key ^b	4	4
Leena Nair ^c	5	5

^a Ian joined the committee on 16 March 2020

^b Matthew joined the committee on 3 October 2019

^c Leena joined the committee on 10 July 2019.

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Membership and key responsibilities

- Determines the salary and benefits for the executive directors, members of the *Executive Committee* and the company secretary, and monitors remuneration practices and policies for the wider workforce
- Operation of the annual bonus scheme for senior executives, including setting performance targets and objectives for the year ahead
- Determines awards under the annual bonus scheme for senior executives
- Governance of the company's long-term incentive plans
- Reviews and approves the Annual Remuneration Report for inclusion in the Annual Report
- Reviews and approves the Policy including seeking shareholder approval, on a binding basis, at least every three years
- Ensures that all remuneration decisions are made within the parameters of the approved Policy and align with our reward philosophy and our values.

In addition to the committee members, the chairman, chief executive, group HR director and director of reward are typically invited to attend meetings, except in instances where their own remuneration is discussed or other circumstances where their attendance would not be appropriate. Deloitte LLP, as the remuneration adviser to the committee, also attends all meetings.

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

I will step down from the Board at the conclusion of the July 2020 AGM following more than nine years' service. During my tenure, BT has had its ups and downs like any other organisation, but one thing that has always been consistent is the vital role that BT plays in our society.

As the world deals with the human and economic impact of Covid-19, BT is doing all it can to keep its customers and businesses connected across the mobile, broadband and fixed line networks. It's at times like this that BT steps up and delivers value for the country beyond what we report as profit or that is reflected in our share price. Despite the challenges we have faced this year, the team has worked incredibly hard to deliver progress in many financial and strategic areas. Looking forward, I am optimistic about BT's future as it works collaboratively with the Government, the regulator, and the wider industry to deliver the full fibre broadband infrastructure that the UK needs, on the assumption we obtain the required critical enablers.

This is a longer letter than I would normally write but I think it is important to explain the changes we are proposing and the rationale for these changes in the current environment. Before getting into the body of the letter, I would like to register three other important points.

First, during the year we welcomed two new members to the committee, Matthew Key and Leena Nair, and we were further strengthened by the addition of Sir Ian Cheshire who joined us in March. It has been a busy year for the committee, and I am grateful to my colleagues for their time commitment, challenge and counsel.

Second, I am also very grateful to shareholders for their engagement on a broad range of remuneration issues including of course our new Policy.

Third, in the current environment, I feel that the use of discretion and judgement will be ever more important. To this end, the committee used its discretion this year to reduce the annual bonus and long-term incentive awards to executive directors. We also decided to freeze executive director salaries and to defer this year's and next year's full annual bonus into shares for a further three years. These are difficult judgements to make but the committee felt it appropriate given BT's share price performance and the Board's decision to suspend and re-base future dividends. That said, while the Board recognises that dividends are important to many shareholders, it believes the dividend decision will create capacity for BT to invest in long-term value-enhancing opportunities as well as give us confidence to manage the business through the

Covid-19 crisis without compromising our credit rating. For example, our FTTP investment should realise pre-tax nominal returns of between 10% to 12%.

At this year's AGM, we will be asking shareholders to vote on two remuneration resolutions:

- Our new Policy, which outlines the remuneration framework that will apply to our executive directors, non-executive directors and the chairman of the Board over the next three years; and
- Our Annual Report on Remuneration, which summarises the outcomes for 2019/20 and explains how we intend to apply the new Policy from 2020/21.

New Policy

During the year the committee conducted a comprehensive review of BT's current Policy. The review is timely as Philip Jansen has completed his first year as chief executive, and this is a great opportunity to reinforce his vision for BT with a new Policy.

BT plays an important role in society – as an employer, a taxpayer, as well as connecting and protecting people and businesses in the UK and overseas. This was evidenced when all the main political parties in the last UK general election highlighted that broadband was a key area of focus for the country. Furthermore, the Government announced that they (and the UK telecoms industry) would need to make significant investments to ensure gigabit-capable broadband extends to the hardest to reach places in the UK. To ensure BT continues to play its part in realising this ambition, the committee believes our new Policy should help foster BT as a purposeful company that benefits all stakeholders, while also ensuring executive reward aligns with shareholders' long-term interests. Therefore, the new Policy is designed to:

- Be simpler and more transparent
- Reward performance against a balanced scorecard of financial and non-financial stakeholder metrics
- Encourage long-term share ownership
- Reflect that we operate in a tightly regulated environment, ensuring a narrower but more predictable range of reward and performance outcomes that align with our business model
- Recognise that BT is faced with several near-term substantial investment decisions and that it may take some time to realise the full benefits for BT and its shareholders
- Comply with corporate governance best practice.

Shareholder consultation

During the year, we consulted extensively with our largest shareholders and their representative bodies. I would like to thank those that engaged with us for their helpful feedback. This helped shape the committee's thinking and the development of the new Policy.

Policy proposals and implementation in 2020/21

We are proposing several changes under our new Policy. The most significant change is to replace our current long-term Incentive Share Plan (ISP) with a new long-term Restricted Share Plan (RSP). Under the new RSP, we will grant a smaller award of shares every year that vest over a longer period without any performance targets but with simple underpins.

a) Long-term incentives

Customers want fast, secure, seamless and reliable connectivity to enable their digital lives and businesses. Therefore, at the heart of our business strategy, is the need to deliver the best converged network in the UK through our rollout of Fibre-To-The-Premises (FTTP) and 5G. The technology and infrastructure build that this requires are complex and will take many years to deliver. We must also navigate multiple and sometimes conflicting requirements from different stakeholder groups (e.g. the Government, the regulator, customers, other communication providers, and shareholders). To ensure we support the right management behaviours to do the right things in a considerate way for all stakeholders we believe we need a new long-term incentive plan. We recognise that restricted share plans are still a relatively new type of long-term incentive that are emerging in the UK, but we believe restricted share plans are the right approach for BT at this particular time for the following reasons:

- Conventional three-year financial or total shareholder return (TSR) targets may not support the right management behaviours to do the right thing for all stakeholders given the longer-term nature of our FTTP investment plans
- Setting even longer-term performance targets (beyond three years) would be particularly difficult in today's Covid-19 world
- Restricted share awards are lower than our current Incentive Share Plan awards, which recognises growing sentiment in society to see a reduction in executive pay

- The potential payouts from restricted shares are less extreme and less variable than conventional long-term incentives. This is more appropriate given that BT operates in a tightly regulated environment with a more limited potential range of performance outcomes than in many other companies
- Our restricted share awards will have a longer phased vesting with additional holding periods. This aligns with our longer-term business model and investment cycle, particularly true now as we intend to enter a period of sustained strategic investment to support the Government's plans for the UK
- We intend to make restricted shares available for three layers of management below executive directors to ensure consistency and alignment
- Restricted shares are simpler and more transparent.

In determining the appropriate level of award, we modelled the potential payouts under different performance and share price scenarios, with the aim of providing a similar level of on-target compensation as the current Policy but significantly reducing the maximum compensation. As a result, we are proposing restricted share awards for the chief executive that are 50% of the face value of his current ISP awards. We are also taking the opportunity to harmonise award levels for the chief financial officer, such that both executive directors will be eligible for a normal award of 200% of salary.

Subject to shareholder approval of the new Policy, we expect to make the first RSP awards in August 2020. When considering grant levels each year, the committee will take account of share price performance over the preceding year. Noting the share price performance during the year prior to the Covid-19 crisis and the dividend decision, the first RSP award for executive directors will not exceed 175% of salary though the committee will make a final decision on the award level closer to the grant date in August 2020, taking into consideration several factors including the share price performance between now and then. Details of the awards granted will be disclosed at the point of grant. In addition to this, the committee will specifically look at the outcomes of the first RSP award to assess whether any "windfall gains" have been realised as a result of any Covid-19 "bounce back".

Report on directors' remuneration Committee chair's letter continued

Awards will vest over three to five years, subject to underpins and over-arching committee discretion. All vested shares cannot be sold (other than to meet tax obligations) until year five. The underpins will apply over the first three years of each award. For the awards scheduled to be granted in August 2020, the underpins will be:

- The average adjusted Group Return on Capital Employed (ROCE) over the three-year period is equal to or exceeds the Weighted Average Cost of Capital (WACC) over the same period. This is a meaningful metric for the business as economic value is created when we earn a return above our cost of capital. Setting the threshold at WACC means that management are not discouraged from making important investments in the short-term (such as FTTP and 5G networks) with the aim to create sustainable value for shareholders and the country over the longer term
- There should be no environmental, social or governance issues occurring which result in significant reputational damage to BT including but not limited to workplace fatalities, regulatory fines or sanctions, or significant environmental incidents.

Should either of the underpins not be met, the committee would consider whether a discretionary reduction in the number of shares vesting was required. In addition, the committee will always have over-arching discretion to adjust the vesting outcome if considered appropriate.

b) Annual bonus

We are making some changes to how the annual bonus operates:

- Harmonising the annual bonus opportunity for both executive directors by decreasing the chief executive's maximum bonus from 240% of salary to 200% of salary and increasing the chief financial officer's maximum bonus from 180% of salary to 200% of salary
- Increasing the proportion of annual bonus deferred into shares from 33% to 50% of any bonus paid. This will strengthen the link between short-term performance and sustainable long-term value creation. In addition, in recognition of the current economic environment and the dividend decision, the executive directors have agreed to defer their full bonus for the 2019/20 financial year into shares for a further three years. The committee also welcomed and agreed the chief executive and chief financial officer's

proposal to defer their full annual bonus for 2020/21 into shares for a further three-years, to the extent that any annual bonus is payable. This means that the executive directors will not take any cash bonuses for two consecutive years

- Changing the annual bonus measures for 2020/21 as follows:
 - Increasing the weighting on financial performance from 60% to 70% of the bonus, which will be split equally between adjusted EBITDA (35%) and normalised free cash flow (35%). We have increased the weighting on financial performance in the annual bonus to balance the move towards long-term restricted shares
 - Adjusted EBITDA is felt to be the best profitability measure for capturing our transformation to become a simpler and more agile company without penalising management for making the investment required to achieve this. Adjusted EBITDA also aligns with the profit measure used in the annual bonus plans for employees further down the organisation
 - Normalised free cash flow is an important measure that we have used for several years, representing the cash available to cover specific items, pension deficit repair payments and shareholder distributions in a company, after accounting for all operational expenses and investments in capital
 - Linking 30% of the bonus to three equally weighted non-financial measures consistent with our strategic priorities and broader stakeholder responsibilities:

Customer experience: differentiated customer experience remains at the heart of everything we do. We will be simplifying our current approach by moving to a single metric based on absolute improvements in our Group Net Promoter Score

Converged networks: as we roll out the latest technologies and work towards creating a single converged network, we will measure success in terms of the total number of customers connected to FTTP and the number of customers connected to 5G

Digital impact and sustainability:

we recognise the importance of the contribution that BT can make to society. The metrics will be focused on progress towards our public ambition of reducing carbon emissions intensity by 87% by 2030, and progress towards our ambition to reach 10m people in the UK with help to improve their digital skills by 2025.

c) Pension

In line with corporate governance best practice, we will reduce the pension allowances for executive directors to align with the pensions provided to most of the UK workforce. The chief executive's pension allowance will be reduced from 15% of salary to 10% of salary in 2020/21, while the chief financial officer's pension allowance will reduce from 30% of salary to 20% of salary in 2020/21, 15% of salary in 2021/22 and 10% of salary in 2022/23 (effective from 1 April at the start of each financial year).

d) Shareholding requirement

To complement the move to restricted shares, and emphasise the focus on long-term share ownership, the shareholding requirement for both executive directors will be increased to 500% of salary. Executive directors must achieve this guideline within five years of the approval of the new Policy or, in the case of any new executive directors appointed, within five years of their date of appointment. We believe this to be at the upper end of FTSE market practice and that it further strengthens the alignment between executives and shareholders.

Reflecting the provisions of the Code, we are extending this requirement for a period of two years post-cessation of employment. Executive directors will be required to retain shares to the value of 500% of salary, or the shares held at the date of leaving if lower, for a period of two years following their departure.

Both the chief executive and the chief financial officer have invested significantly in BT shares during their year and have therefore been aligned with the shareholder experience.

Remuneration outcomes for 2019/20

Overall, BT has delivered significant progress in many financial and strategic areas despite challenging market headwinds and continuing regulatory complexity.

- Revenue was just outside our guidance, and reflected the impact of regulation, declines in legacy products and divestments, partly offset by growth in new products and services and higher rental bases of fibre-enabled products and Ethernet. It was also partly due to a strategic decision to withdraw from a relatively sizeable customer contract, which had a c. £55m impact on revenue. We did not adjust the targets to reflect this decision and therefore no bonus was earned on this measure
- EBITDA was in line with guidance despite lower revenue, as operating costs came in lower year-on-year mainly driven by savings from our ongoing transformation programmes, partially offset by increased business rates, investment in customer experience and increased salary costs in Openreach to support FTTP rollout and better service. Regulatory pricing reductions had an impact of c. £347m and cost inflation (including the effect of cumulo rate increases) had an impact of c. £217m. A decline in fixed voice was partly offset by IP voice with an aggregate impact of c. £137m. Earnings per share (EPS) performance was close to around our stretch goal, principally due to lower than expected interest payments
- Normalised free cash flow was within guidance despite year-on-year increased cash capex to support faster FTTP rollout, lower EBITDA, the deposit for UEFA club football rights, partially offset by one-off cash flows. We did not adjust the targets to reflect any of these impacts
- We achieved c. £1.6bn of annualised benefits a year early from our transformation programme. We have also announced c. £2bn of planned gross cost savings over the next five years
- We performed strongly on network build - FTTP footprint doubled in the year to 2.6m premises and we continue to aim for an average cost per premises passed of £300-£400; and EE was the first to launch 5G in the UK and at the end of 2019/20 was live in 78 cities and large towns.

- Customer complaints to Ofcom were reduced by 41% for BT consumer broadband on a year-on-year basis. We also exited the 2019/20 financial year strongly on our customer Net Promoter Score, which was up 5.5 points in Q4. EE has retained the 'best mobile network' position for the sixth consecutive year in the 2019 RootMetrics survey
- We responded quickly and effectively to the Covid-19 crisis, protecting our people and implementing operational contingency plans, and with a firm focus on supporting the national response to the crisis. The work we are doing for customers and the country has been recognised extensively by the Government and Ofcom, including the brilliant work of our teams to support the NHS and to keep the network running for millions of people that suddenly found themselves needing to work from home during the lockdown.

As a result of our performance, the formulaic outturn under the business performance measures was 103.8% of target. However, given the overall performance of BT including our share price performance during the year and the dividend decision, the committee applied its discretion to reduce the formulaic outcome under the business measures to 85% of target. This resulted in an annual bonus of £1.32m (or 50% of maximum) for the chief executive and £900,176 (or 68% of maximum) for the chief financial officer. The committee welcomed and agreed the chief executive and chief financial officer's proposal to defer their full annual bonus into shares for a further three years.

The chief executive and chief financial officer will not receive a salary increase in 2020 in line with the management population (non-managers will receive a salary increase, which will be 1.5% in the UK).

The ISP award granted in 2017 will lapse in full in May 2020 as we did not meet the performance targets over the last three years.

Following the announcement that all awards had vested in full upon completion of the Worldpay acquisition by FIS, Philip Jansen's buyout award vested on 20 March 2020. Philip voluntarily agreed to hold these shares for a further year.

Looking ahead to 2020

Given the significant changes that are being proposed this year, the focus of the committee during the 2020/21 financial year will be to ensure that the new Policy is successfully embedded into the business and operates as intended. The new Group scorecard for 2020/21 and the RSP will be used for all managers in BT (except in Openreach) that are eligible to participate in an annual bonus and long-term incentive plan. Due to commitments to the regulator and to maintain Openreach's independence, Openreach managers will use a similar scorecard and RSP structure but linked to Openreach performance and payments will be made in cash rather than BT shares. As a committee we seek to make decisions which effectively align remuneration outcomes with performance, balancing all relevant factors. Looking forward, we are confident that the changes to our new Policy will allow us to strengthen this alignment by ensuring that our colleagues are focused on continuing to deliver the transformation needed to make BT a stronger and more purposeful company that benefits all our stakeholders.

As outlined above, our new Policy positions us well against the new provisions of the UK Corporate Governance Code (Code) 2018. We will of course continue to assess how shareholders' views evolve in various areas and monitor any developments in the remuneration landscape more generally. During 2020/21, we will continue to broaden our view of wider workforce pay and conditions and the amount and quality of the information which we see.

Finally, I am delighted to say that Sir Ian Cheshire will succeed me as the chair of the committee, and I am confident that he will oversee a successful implementation of our new Policy.

I hope the committee has your support for our new Policy and our Report on directors' remuneration at the forthcoming AGM.

Nick Rose
Chair of the Remuneration Committee
6 May 2020

Focus on remuneration

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. Below is how remuneration is aligned with the principles of the Code.

Clarity

- Our remuneration framework is structured to support the financial and strategic objectives of the company, aligning the interests of our executive directors with those of our shareholders
- We are committed to transparent communication with all our stakeholders, including our shareholders
- From 2020/21, performance for senior management and all other employees will be measured against a single consistent scorecard.

- The annual bonus rewards performance against key performance indicators, while the RSP provides long-term sustainable alignment with our shareholders
- There is clear line of sight for management and shareholders.

Proportionality

- There is clear alignment between the performance of the company, the business strategy, and the reward paid to executive directors
- Target total compensation levels are set competitively compared to other companies of similar size and complexity, to ensure we can attract and retain the executives needed to deliver the business strategy. However, the maximum total compensation levels are set lower than typical market practice to reflect the narrower and more predictable range of performance outcomes for BT
- Formulaic incentive outcomes are reviewed by the committee and may be adjusted having consideration to overall group performance and wider workforce remuneration policies and practices.

Risk

- Our incentives are structured to align with the company's risk management framework
- Three-year deferral under the annual bonus and no release of RSP awards until five years from the date of award create long-term alignment, as do our in- and post-employment shareholding requirements
- The annual bonus, deferred bonus and RSP also incorporate malus and clawback provisions, and overarching committee discretion to adjust formulaic outcomes.

Alignment to culture

- When considering performance, the committee takes account of BT's values
- The committee receives regular updates on pay conditions across the business, and colleagues may provide feedback to the Board directly via the *Colleague Board*
- All-employee share plans help encourage our colleagues to become shareholders in the business.

Predictability

- The introduction of the RSP reflects that we operate in a tightly-regulated environment, ensuring a narrower but more predictable range of reward and performance outcomes to align with our business model.

Simplicity

- We operate a simple, but effective remuneration framework, which is applied on a consistent basis for all employees

Look out for these icons in the Report on directors' remuneration to distinguish the different types of pay.

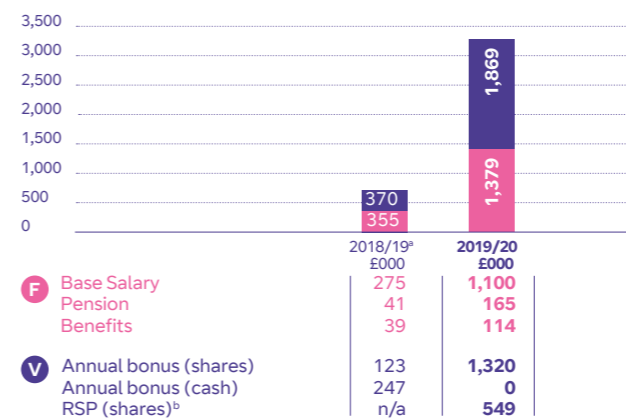
- F** Fixed pay
Base salary
Pension allowance
Benefits
- V** Variable
Annual bonus
Restricted share awards

Illustration of new Policy

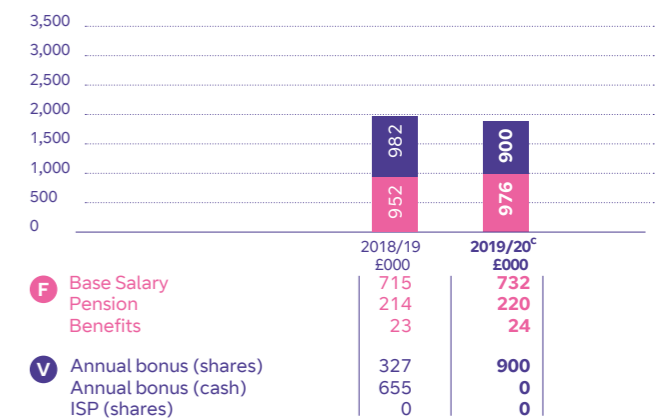
		2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Fixed pay	Base salary	█							
	Pension allowance	█							
	Benefits	█							
Annual bonus	50% cash		█						
	50% deferred shares					█			
50% of the bonus deferred for three years									
Restricted share plan awards	Tranche 1				█	█	█		
	Tranche 2					█	█	█	
	Tranche 3						█	█	█
Underpins apply over three years									
All tranches may not be sold until year five									
Malus and clawback up to two years after vesting of each tranche									

Remuneration earned in 2019/20

Philip Jansen
Chief executive
£000



Simon Lowth
Chief financial officer
£000



^a The figure is pro-rated to reflect Philip's service in the year
^b The buyout award granted to Philip on appointment to compensate him for his loss in shares forfeited from Worldpay. Philip's first ISP award was made in February 2019
^c The group returned below threshold performance against all of the performance measures for the 2017 ISP. No payment was made.

Performance outcomes in 2019/20

Annual bonus

- Bonus was subject to five measures of business and personal performance
- The EPS result was close to our stretch target, while cash flow and customer experience were between threshold and target
- Revenue performance was below the threshold level
- This resulted in a formulaic outcome of 103.8% of target for the business objectives
- Both executive directors displayed strong leadership and delivered successfully on their strategic objectives for the year
- However, in light of the overall financial performance of the business, including our share price, the committee made a discretionary adjustment and reduced the outcome under the business objectives to 85% of target
- The executive directors have agreed to defer all their bonus for 2019/20 into shares for a further three years.

Annual bonus 2019/20

Measure	Payout (% of max)	
Adjusted EPS	97%	
Normalised free cash flow	38%	
Revenue (including transit)	0%	
Customer experience	39%	
Strategic objectives	Chief executive	80%
	Chief financial officer	93%

Incentive Share Plan

- Awards subject to three performance measures
- Performance was below threshold, so awards will lapse in full and no payment will be made.

2017 ISP

Measure	Payout (% of max)
Total shareholder return	0%
Normalised free cash flow	0%
Underlying revenue growth (excluding transit)	0%

Implementation of the Policy in 2020/21

	F Fixed pay	V Annual bonus	V Restricted Share Plan
Philip Jansen (Chief executive)	Salary – £1,100,000 Benefits Pension – 10% of salary	Max. opportunity – 200% of salary Target opportunity – 120% of salary	2020 award – will not exceed 175% of salary
Simon Lowth (Chief financial officer)	Salary – £735,438 Benefits Pension – 20% of salary	Max. opportunity – 200% of salary Target opportunity – 120% of salary	2020 award – will not exceed 175% of salary
Performance measures	n/a	Adjusted EBITDA (35%) Normalised free cash flow (35%) Customer experience (10%) Converged networks (10%) Digital impact & sustainability (10%)	Awards subject to two underpins over the initial three-year vesting period: • ROCE in excess of WACC; and • No environmental, social or governance issues resulting in material reputational damage.
Framework	n/a	• 100% of any bonus payment in 2020/21 will be deferred into shares for three years • Malus and clawback provisions apply • Full committee discretion available	• Awards vest in three tranches over three to five years; • Malus and clawback provisions apply • Full committee discretion available

Annual remuneration report

This section summarises all elements of the directors' remuneration in 2019/20.

References to 'audited' refer to an audit performed in accordance with UK statutory reporting requirements. For US purposes, disclosures have not been audited from a Public Company Accounting Oversight Board perspective.

Single total figure of remuneration (audited)

The following sets out all emoluments received by directors for the financial years 2019/20 and 2018/19, including bonus and deferred bonus, long-term incentive plans and pension arrangements.

	Fixed pay						Variable pay				Total	
	Basic salary and fees £000		Benefits ^a £000		Pension £000		Annual bonus ^c £000		Long-term incentives £000		Total £000	
	2019/20	2018/19	2019/20	2018/19	2019/20 ^b	2018/19	2019/20	2018/19	2019/20 ^{d,e}	2018/19 ^f	2019/20	2018/19
Chairman												
Jan du Plessis	700	700	18	24							718	724
Executive directors												
Philip Jansen	1,100	275	114	39	165	41	1,320	370	549		3,248	725
Simon Lowth	732	715	24	23	220	214	900	982	–		1,876	1,934
Non-executive directors												
Ian Cheshire ^g	4										4	0
Iain Conn	112	124									112	124
Tim Höttges ^h	–	–									0	0
Isabel Hudson ⁱ	139	157	3	3							142	160
Mike Inglis ⁱ	132	126	3	2							135	128
Matthew Key ⁱ	119	39	1	1							120	40
Allison Kirkby	117	3									117	3
Leena Nair ^j	82										82	0
Nick Rose ^j	178	171	2	1							180	172
Sub-total	3,415	2,310	165	93	385	255	2,220	1,352	549	0	6,734	4,010
Former directors												
Jasmine Whitbread ^k	94	134									94	134
Total	3,509	2,444	165	93	385	255	2,220	1,352	549	0	6,828	4,144

^a Benefits provided to the executive directors and the chairman 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. For the chief executive, the value for 2019/20 includes a company provided car and personal driver to the value of c. £82,000

^b Pension allowance paid in cash for the financial year - see 'Total pension entitlement' on pages 98 and 99

^c Annual bonus shown includes both the cash and deferred share element. As agreed by the committee, 100% of the 2019/20 bonus will be deferred into shares to be granted in June 2020

^d The RSP 2019 granted on Philip's appointment vested on 20 March 2020. Further details are provided on page 103

^e The ISP 2017 granted in June 2017 will lapse in full. Further details are provided on page 103

^f The ISP 2016 granted in June 2016 lapsed in full in May 2019

^g Ian was appointed as a director on 16 March 2020 and the figure represents his pro-rated remuneration during the year

^h Under the terms of the Relationship Agreement between BT and Deutsche Telekom and Tim's letter of appointment, no remuneration is payable for this position

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

^j Leena was appointed as a director on 10 July 2019 and the figure represents her pro-rated remuneration during the year

^k Jasmine stepped down as a director on 6 December 2019.

Additional disclosures relating to the single figure table (audited)

Salaries and fees

Executive directors' salaries are reviewed annually, with any increases typically effective from 1 June. A 2.5% increase to Simon Lowth's salary was agreed for 1 June 2019, in line with increases for the UK management population and lower than the increase given to team members. Simon's new base salary was £735,438. Philip Jansen's salary of £1,100,000 was fixed for five years at the time of his appointment in January 2019.

The fees for non-executive directors reflect committee-related or other additional responsibilities, including on a pro-rated basis for any appointments during the year. Full remuneration details are set out on page 105.

Total pension entitlements

We closed the BT Pension Scheme (BTPS) for most members on 30 June 2018. 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 their salary each year which can be put towards the provision of retirement benefits.

During the year, Philip Jansen received an annual allowance equal to 15% of salary in lieu of pension provision as set out in the table on page 98. BT also provides death in service cover consisting of a lump sum equal to four times his salary.

During the year Simon Lowth received an annual allowance equal to 30% of salary in lieu of pension provision as set out in the table on page 98. BT also provides death in service cover consisting of a lump sum equal to four times his salary plus a dependent’s pension equal to 30% of his capped salary.

Annual bonus

Both executive directors were eligible for an on-target bonus in respect of 2019/20 of 120% of salary. The maximum bonus payable to the chief executive and chief financial officer respectively was 240% and 180% of salary. The annual bonus is based on performance against key financial and non-financial metrics, and strategic objectives. The tables below show the outturn against each measure applying to the executive directors in 2019/20. For the 20% of the bonus based on strategic objectives, the personal performance of both executive directors was measured versus a set of defined objectives.

For Philip Jansen, the assessment of personal performance was carried out by the chairman in discussion with the independent non-executive directors. *The Nominations Committee* with recommendations from Philip Jansen reviewed the performance of the *Executive Committee* members, including Simon Lowth.

Strategic objectives Philip Jansen

Category & objectives	Assessment of performance
<p>Network</p> <ul style="list-style-type: none"> Deliver our ambition of an integrated corporate, network and product strategy, including rollout of key investment programmes such as FTTP and 5G. 	<ul style="list-style-type: none"> Met ‘first to 5G’ target ; live in 78 cities and large towns Doubled FTTP premises passed in the year to 2.6m Launched BT Halo converged propositions to Consumer & Enterprise customers EE retained ‘best mobile network’ for the sixth consecutive year in 2019 RootMetrics survey.
<p>Reputation</p> <ul style="list-style-type: none"> Continue to build trust, confidence and reputation with the regulator, Government and other stakeholders. 	<ul style="list-style-type: none"> Customer complaints to Ofcom reduced by 41% year-on-year for BT consumer broadband Improvements in reputation with key stakeholders: Overall Favourability up from 47% in 2017 to 51% in 2019; Trust up from 55% to 67% and BT Heading in the Right Direction up from 47% to 63% (2019 independent Populus research).
<p>ESG</p> <ul style="list-style-type: none"> Launch a new national digital skills programme (Skills for Tomorrow) to help customers, colleagues and communities to improve their digital skills Tackle climate change 	<ul style="list-style-type: none"> Skills for Tomorrow successfully launched during 2019 with the ambition to reach 10m people in the UK with help to improve their digital skills by 2025. It builds on our longstanding programmes such as Barefoot Computing which has reached more than 2.8m children since 2014 Delivered a 42% reduction in carbon intensity since 2016/17, as part of our target to cut carbon emissions intensity by 87% by 2030*.
<p>Colleague</p> <ul style="list-style-type: none"> Transform BT’s operating model, culture and capabilities to the benefit of all colleagues. 	<ul style="list-style-type: none"> Engagement rose 2% over 2019/20 with a 4% improvement in colleagues recommending BT Set up operating model to deliver multi year Simplify programme Launched <i>Colleague Board</i> with members drawn from across our customer-facing and corporate units.
<p>Leadership</p> <ul style="list-style-type: none"> Support, challenge and develop the <i>Executive Committee</i> Develop succession pipeline for key senior roles. 	<ul style="list-style-type: none"> Strengthened key commercial and corporate functions pipelines
Final outcome:	160% of target (80% of maximum)

Strategic objectives Simon Lowth

Category & objectives	Assessment of performance
<p>Financial</p> <ul style="list-style-type: none"> Delivery of financial year 2019/20 budget and development of value-creating medium term plan and financing strategy for financial years 2020/21 - 2024/25. 	<ul style="list-style-type: none"> Financial performance in line with market guidance with the exception of revenue due to a strategic decision to withdraw from a large customer contract Strong leadership and planning for ongoing challenges such as the Government’s announcement on high-risk vendors and Covid- 19 Successfully delivered FY20 financing strategy to maintain strong balance sheet, including issuance of BT’s inaugural hybrid bond Delivered commitment of £1.6bn of annualised benefits from transformation one year early.
<p>Customer</p> <ul style="list-style-type: none"> Meet function’s customer experience targets and support the business with timely and accurate reporting. 	<ul style="list-style-type: none"> Strong advocacy of customer experience as a priority across the business; targeted investment decisions to support delivery Delivered service objectives in Shared Service operations and enhanced facilities management (ie cleaning) through Covid- 19.
<p>Strategic</p> <ul style="list-style-type: none"> Define and support delivery of Better Workplace Programme Deliver procurement savings in excess of medium term plan. 	<ul style="list-style-type: none"> Successfully undertook non-core divestments in challenging markets (BT Fleet Solutions, Tikit, BT España, France and certain domestic operations in Latin America) Completed sale of BT Centre and finalised arrangements for new HQ at One Braham. Secured and announced Better Workplace strategic hubs in the UK Outperformed on delivery of targeted procurement savings in 2019/20.
<p>Colleague</p> <ul style="list-style-type: none"> Progress ongoing transformation of finance and business services functions Further improve functional engagement levels. 	<ul style="list-style-type: none"> Significant and proactive improvements to finance and risk management function, including successful implementation of first phase of finance function transformation, enhanced risk management processes, and improved financial and risk modelling capabilities Finance function engagement scores improved by seven percentage points.
Final outcome:	140% of target (93% of maximum)

*Scope 1 & 2 greenhouse gases per unit of gross value added.

Annual remuneration report continued

Measure	Weighting	Threshold	Target	Stretch	Actual	Payout (% of max)
Adjusted EPS (p)	25%	20.9	22.0	23.6	23.5	97%
Normalised free cash flow (£m)	25%	1,956	2,059	2,265	2,011	38%
Revenue (incl. transit) (£m)	10%	22,833	23,064	23,410	22,824	0%
Customer experience	20%	50	100	200	78	39%

EPS performance was close to the stretch target, while cash flow and customer experience were between threshold and target. Revenue performance was below the threshold. The total formulaic outcome for the business objectives (collectively accounting for 80% of the bonus) was therefore 103.8% of target. However, when considering the final bonus outcome, the committee took account of the overall financial and operational performance of the business during the year, including the fall in share price, and used its discretion to adjust the outcome under the business objectives to 85% of target.

In addition, in recognition of the current economic environment and the dividend decision, the executive directors have agreed to defer all their bonus for 2019/20 into shares for a further three years. Deferred share awards will be granted in June 2020 and will vest after three years subject to continued employment only. By default, the exceptional element of the deferred award (i.e. anything in excess of the normal deferral level of one third) will be retained on cessation of employment.

The final bonus outturns for the executive directors are set out below:

	Business performance (80%)		Strategic objectives (20%)	Overall bonus		
	Formulaic outcome	Following discretion	Outcome	% of target	% of max	Value
Philip Jansen	103.8% of target	85% of target	160% of target	100%	50%	£1,320,000
Simon Lowth	103.8% of target	85% of target	140% of target	102%	68%	£900,176

2017 ISP

The ISP is a conditional share award. The committee assesses the performance conditions to 31 March 2020 and the awards would ordinarily vest in May 2020. The performance conditions are based 40% on relative total shareholder return (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.

As set out in the table below, the threshold performance target in respect of each measure was not met and therefore the awards lapsed in full and no payment was made.

Measure	Weighting	Threshold	Maximum	Actual	Payout (% of max)
Total shareholder return (rank)	40%	11th	6th	21st	0%
Normalised free cash flow (£)	40%	£7.92bn	£8.92bn	£7.86bn	0%
Underlying revenue growth (excluding transit) (%)	20%	1.8%	4.0%	(3.2)%	0%

Awards granted during the year (audited)

2019 ISP

The 2019 ISP awards were made in June 2019 as set out below and on page 103. An award of 400% of salary was made to Philip Jansen and 350% of salary to Simon Lowth. The face value is based on the share price at the date of grant of 207.45p. The grant price is calculated using the average middle-market price of a BT share for the three days prior to grant.

Director	Date of award	ISP award (shares)	Face value of award
Philip Jansen	19 June 2019	2,120,993	£4,400,000
Simon Lowth	19 June 2019	1,240,796	£2,574,031

These awards are conditional share awards. Performance conditions attached to the awards are based on 40% relative TSR, 40% normalised free cash flow, and 20% growth in underlying revenue including transit, each measured over a three-year performance period from 1 April 2019 to 31 March 2022. The tables below set out targets and vesting levels for the three performance measures.

Relative TSR (40%)

TSR position	Proportion vesting (of TSR portion of award)	Proportion vesting (of overall award)
1-4	100%	40%
5	95%	38%
6	75%	30%
7	55%	22%
8	35%	14%
9-16	0%	0%

Following the acquisition of Sky, which had previously been included, by Comcast Inc., it was removed from the TSR comparator group. The group applying to the 2019 award is therefore as follows:

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

Financial targets

Measure 2019/20–2021/22	Threshold	Level of vesting	Maximum	Level of vesting ^a
Normalised free cash flow (40%)	£5.9bn	25%	£7.2bn	100%
Underlying revenue growth (including transit) (20%)	(1.0)%	25%	2%	100%

^a Vesting levels between threshold and maximum will be on a straight line basis.

When setting the targets, the committee takes into account the budget, medium term plan and market consensus at the time. The committee believes the performance ranges for free cash flow and revenue measures are challenging, and the financial performance necessary to achieve the upper end of the range for each measure is stretching.

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

2019 deferred shares

We awarded one third of the 2018/19 annual bonus in deferred shares. The table below provides further details.

Director	Date of award	Number of deferred shares	Face value of award ^a
Philip Jansen	19 June 2019	59,387	£123,198
Simon Lowth	19 June 2019	157,715	£327,180

^a Face value based on share price at grant of 207.45p. The grant price is calculated using the average middle-market price of a BT share for the three days prior to grant.

Deferred shares are not subject to performance conditions and have a three-year vesting period. Details of all interests in deferred shares are set out on page 103.

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

Payments for loss of office (audited)

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

Former directors (audited)

No payments were made to former directors during the year.

Directors' share ownership (audited)

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

Under the existing shareholding requirement, the chief executive is required to build up a shareholding equal to 300% of salary, and the chief financial officer 250% of salary.

Subject to the approval of the new Policy, the shareholding requirement for both executive directors will be increased to 500% of salary as set out in the table below.

Director	Shareholding requirement % of salary	
	Current Policy	New Policy
Philip Jansen	300%	500%
Simon Lowth	250%	500%

Executive directors must achieve the increased shareholding guideline within five years of the approval of the new Policy or, in the case of any new executive directors appointed, within five years of their date of appointment.

Under the new Policy, executive directors will be required to retain shares to the value of 500% of salary or, the shares held at the date of leaving if lower, for a period of two years post-cessation of employment.

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 (based on acquisition price) 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 the Deutsche Telekom representative director who has appointed to the Board as a non-independent, non-executive director under the terms of the EE acquisition in January 2016. This helps avoid any conflict of interest.

Annual remuneration report continued

Directors' interests at 31 March 2020 or on cessation (audited)

The following table shows the beneficial interests in the company's shares of directors and their families as at 31 March 2020 (or at the point of leaving for directors who left during the year).

The table includes interests held by the executive directors under the company's share plans. 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 page 103.

For executive directors 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.

During the period 1 April 2020 to 6 May 2020, there were no movements in directors' beneficial holdings or other interests in shares. The directors, as a group, beneficially own less than 1% of the company's shares.

Director	Beneficial holding owned outright at 1 April 2019	Beneficial holding owned outright at 31 March 2020	Unvested interests in share plans			Total shareholding at 31 March 2020 ^d	Percentage of salary held
			DBP ^a	ISP ^b	Other ^c		
Philip Jansen	771,313	3,059,481	64,959	3,896,440	-	3,093,909	520%
Simon Lowth	157,379	582,436	391,881	3,804,576	10,975	790,133	199%
Jan du Plessis	501,599	502,475	-	-	-	502,475	N/A
Ian Cheshire ^e	n/a	0	-	-	-	0	N/A
Iain Conn	19,442	19,442	-	-	-	19,442	N/A
Tim Höttges	0	0	-	-	-	0	N/A
Isabel Hudson	24,090	24,090	-	-	-	24,090	N/A
Allison Kirkby	0	25,000	-	-	-	25,000	N/A
Mike Inglis	29,091	29,091	-	-	-	29,091	N/A
Matthew Key	31,000	115,933	-	-	-	115,933	N/A
Leena Nair ^f	n/a	0	-	-	-	0	N/A
Nick Rose	400,000	400,000	-	-	-	400,000	N/A
Jasmine Whitbread ^g	11,832	11,832	-	-	-	11,832	N/A
Total	1,945,746	4,769,780	456,840	7,701,016	10,975	5,011,905	N/A

^a Subject to continued employment

^b Subject to performance

^c Interests in saveshare, an HMRC-approved all-employee plan

^d The value of shares held for the purpose of satisfaction of the shareholding guideline. This includes all beneficial holdings, plus outstanding share awards that are subject to continued employment only included on a net-of-tax basis, using a 12-month average share price of £1.8507

^e Ian was appointed as a director on 16 March 2020

^f Leena was appointed as a director on 10 July 2019

^g Jasmine stepped down as a director on 6 December 2019 and the number reflects her holding at that date.

Outstanding share awards at 31 March 2020 (audited)

The table below sets out share awards granted to the executive directors

	1 April 2019	Awarded/ granted	Dividends re-invested	Vested	Lapsed	Total number of award shares at 31 March 2020	Vesting date	Price at grant	Market price at date of vesting	Market price at date of exercise	Monetary value of vested award £000
Philip Jansen											
DBP 2019 ^a	-	59,387	5,572	-	-	64,959	01/08/2022	207.45p	-	-	-
ISP 2018 ^b	1,441,160	-	135,244	-	-	1,576,404	31/03/2021	233.56p	-	-	-
ISP 2019 ^c	-	2,120,993	199,043	-	-	2,320,036	31/03/2022	207.45p	-	-	-
RSP 2018 ^d	378,221	-	35,493	413,714	-	-	20/03/2020	214.6p	132.63p	-	549
Simon Lowth											
DBP 2017	47,435	-	4,451	-	-	51,886	01/08/2020	286.40p	-	-	-
DBP 2018	153,113	-	14,367	-	-	167,480	01/08/2021	211.01p	-	-	-
DBP 2019 ^a	-	157,715	14,800	-	-	172,515	01/08/2022	207.45p	-	-	-
ISP 2016 ^e	710,100	-	-	-	710,100	-	31/03/2019	405.38p	-	-	-
ISP 2017 ^f	965,855	-	90,639	-	-	1,056,494	31/03/2020	286.4p	-	-	-
ISP 2018 ^g	1,271,520	-	119,325	-	-	1,390,845	31/03/2021	211.01p	-	-	-
ISP 2019 ^c	-	1,240,796	116,441	-	-	1,357,237	31/03/2022	207.45p	-	-	-
saveshare 2019 ^h	-	10,975	-	-	-	10,975	01/08/2024	164p	-	-	-

^a Awards granted on 19 June 2019. 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

^b Award granted on 1 February 2019. 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 233.56p. 40% of each award is linked to TSR compared with a group of 17 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

^c Awards granted on 19 June 2019. 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 207.45p. 40% of each award is linked to TSR compared with a group of 16 companies, 40% is linked to a three-year normalised free cash flow measure and 20% to a measure of underlying revenue growth (including transit) over three years

^d Award granted on 1 February 2019. 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 241.6p. This was a buyout award to compensate Philip for the loss in shares that he forfeited on leaving Worldpay to join BT

^e 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 233.56p. 40% of each award is linked to TSR compared with a group of 21 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 was below the threshold level and none of the shares vesting under the 2016 ISP. The award lapsed in full in May 2019

^f Award granted on 22 June 2017. 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 286.40p. 40% of each award is linked to TSR compared with a group of 21 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

^g Award granted on 19 June 2018. 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 211.01p. 40% of each award is linked to TSR compared with a group of 17 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

^h Option granted on 14 June 2019 under the HMRC-approved employee saveshare scheme, under which all employees of the company are entitled to participate.

Annual remuneration report continued

Implementation of new Policy in 2020/21

Base salary

Philip Jansen's base salary of £1,100,000 was agreed on appointment and is fixed for five years. Therefore, there is no increase for 2020/21.

In line with the agreed approach for our UK management population, Simon Lowth will not receive a salary increase effective 1 June 2020.

Director	2020/21	
	Base salary	% change
Philip Jansen	£1,100,000	0%
Simon Lowth	£735,438	0%

Benefits

For executive directors, the committee has set benefits in line with the new Policy. No changes are proposed to the benefit framework for 2020/21.

Pension

In line with the new Policy, the executive directors will have a reduced pension provision for 2020/21.

Director	% of salary
Philip Jansen	10% in lieu of pension provision
Simon Lowth ^a	20% in lieu of pension provision

^a This will further reduce to 15% of salary in 2021/22 and 10% of salary in 2022/23 (effective from 1 April at the start of each financial year).

Annual bonus

The executive directors are eligible for an on-target and maximum bonus payment of 120% and 200% of salary respectively.

The committee welcomed and agreed the chief executive and chief financial officer's proposal to defer their full annual bonus for 2020/21 into shares, to the extent that any annual bonus is payable. This means that the executive directors will not take any cash bonuses for two consecutive years.

The 2020/21 annual bonus structure measures and weightings are set out below.

Category	Measure	Weighting
Financial	Adjusted EBITDA	35%
	Normalised free cash flow	35%
Customer	Group Net Promoter Score	10%
Converged networks	5G customers – the number of customers on our 5G network	5%
	FTTP connections – the number of connections in the Openreach FTTP network	5%
Digital impact & sustainability	Carbon emissions – progress towards an 87% reduction in carbon emissions intensity by 2030	5%
	Skills for Tomorrow – progress towards our ambition to reach 10m people in the UK with help to improve their digital skills by 2025	5%

We do not 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 2021 Report on directors' remuneration so shareholders can evaluate performance against those targets.

Restricted share plan (RSP)

Subject to the approval of the Policy and the relevant plan rules at our 2020 AGM, awards will be granted to executive directors under the RSP in August 2020.

When considering grant levels each year, the committee will take account of share price performance over the preceding year. Noting the share price performance during the year prior to the Covid-19 crisis and the dividend decision, the first RSP award for executive directors will not exceed 175% of salary, though the committee will make a final decision on the award level closer to the grant date in August 2020 taking into consideration several factors including the share price performance between now and then. Details of the awards granted will be disclosed at the point of grant.

This award will vest in three equal tranches after three, four and five years. A holding period will apply such that no shares may be sold until year five.

Two underpins will apply over the initial three-year vesting period, as follows:

- the average return on capital employed must exceed the weighted average cost of capital over the same period; and
- there must have been no environmental, social or governance issues which have resulted in material reputational damage for the company.

Should one or both of the underpins not be met, the committee may at its discretion reduce the number of shares vesting, including to nil. RSP awards are subject to malus and clawback provisions as set out in the Policy, and the committee retains the ultimate discretion to adjust vesting levels in exceptional circumstances, should they not reflect the overall performance of the business over the vesting period, or for any other reason.

Chairman and non-executive director remuneration

The fees for non-executive directors were reviewed during the year by the chairman and executive directors, taking into consideration the role and requirements of BT, together with the fees paid to non-executive directors at companies of a similar size and complexity, previous years' increases and no salary increases for the UK management population. It was agreed that there would be no increase in fees.

The basic fee for non-executive directors is £77,000 per year. There are additional fees for membership and chairing a Board committee, details of which are set out in the table below:

Committee	Chair's fee	Member's fee
Audit & Risk	£35,000	£25,000
BT Compliance ^a	£ 25,000	£12,000
Digital Impact & Sustainability	£ 14,000	£8,000
Investigatory Powers Governance	n/a ^b	£8,000
Nominations	n/a ^b	£10,000
Remuneration	£30,000	£15,000

^a A sub-committee of the *Audit & Risk Committee*

^b Where the chairman or chief executive acts as chair of a board committee, no additional committee chair fee is payable.

The senior independent director receives an additional fee of £27,000 per annum.

The designated non-executive director for workforce engagement on the *Colleague Board* receives an additional fee of £10,000 per annum.

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

The committee agreed a fee of £700,000 per year, fixed for five years on the chairman's appointment in November 2017 and therefore no review of his fee was undertaken.

Other remuneration matters

Advisers

During the year, the committee received independent advice on executive remuneration matters from Deloitte LLP. Deloitte received £206,745 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 and the new Policy.

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 2019/20, Deloitte provided the company with advice on corporate and indirect taxes, assistance with regulatory, risk and compliance issues and additional consultancy services.

Dilution

We use both treasury shares and shares purchased by the BT Group Employee Share Ownership Trust (the Trust) to satisfy our all employee share plans and executive share plans. Shares held in the Trust do not have any voting rights.

At the end of 2019/20, shares equivalent to 2.32% (2018/19: 2.83%) of the issued share capital (excluding treasury shares) would be required for all share options and awards outstanding.

Of these, we estimate that for 2020/21, shares equivalent to approximately 0.26% (2019/20: 0.39%) of the issued share capital (excluding treasury shares) will be required for the all-employee share plans.

External appointments held by executives

The *Nominations Committee* determines the policy, and if thought fit recommends to the Board for approval the taking up of external appointments including directorships by members of the *Executive Committee*, including the executive directors, and other senior direct reports to the chief executive.

Previous Annual General Meeting (AGM) voting outcomes

The table below sets out the previous votes cast at the AGM in respect of the Annual Remuneration Report and the Directors' Remuneration Policy.

	For % of votes cast Number	Against % of votes cast Number	Withheld votes Number
Annual Remuneration Report at the 2019 AGM	91.90 6,011,286,559	8.10 530,098,249	30,829,140
Directors' remuneration policy at the 2017 AGM	96.12 6,654,431,173	3.88 268,487,768	14,886,907

Withheld votes are not counted when calculating voting outcomes.

Committee evaluation 2019/20

During 2019/20 we carried out an internal evaluation of the committee led by the chairman and the company secretary. Members, attendees and Deloitte completed questionnaires and the committee discussed the responses and key findings. The committee agreed the following key actions for 2020/21:

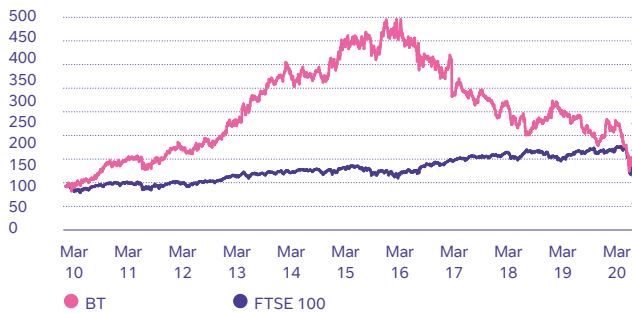
Key areas of focus	Agreed actions
Remuneration advisers	Given Deloitte have been the committee's remuneration advisers for a number of years, consider an external market review of advisers during 2020/21.
Increasing knowledge of committee members	Consider whether any specific updates on external benchmarking and general market trends should be presented to the committee at an appropriate meeting or as part of specific agenda items.
Papers	Review whether further improvements to papers can be made.

Annual remuneration report continued

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 ten years. We consider the FTSE 100 to be the most appropriate index against which to measure performance, as BT has been a member of the FTSE 100 throughout the ten-year period.

BT's TSR performance vs the FTSE 100



Source: Datastream

The graph shows the relative TSR performance of BT and the FTSE 100 over the past ten years.

History of chief executive remuneration

Year end	Chief Executive	Total remuneration £000	Annual bonus (% of max)	ISP vesting (% of max)
2020	Philip Jansen ^a	3,248	50%	N/A
2019	Philip Jansen ^a	725	56%	N/A
	Gavin Patterson ^b	1,719	28%	0%
2018	Gavin Patterson	2,307	54%	0%
2017	Gavin Patterson	1,345	0%	0%
2016	Gavin Patterson	5,396	45%	82.01%
2015	Gavin Patterson ^b	4,562	58%	67.4%
2014	Gavin Patterson ^c	2,901	62%	78.7%
	Ian Livingston ^d	4,236	35%	63.4%
2013	Ian Livingston	9,402	65%	100%
2012	Ian Livingston	8,520	73%	100%
2011	Ian Livingston	4,009	79%	0%
2010	Ian Livingston	3,556	71%	0%

^a Philip was appointed as a director on 1 January 2019 and became chief executive from 1 February 2019. His first ISP award was made in February 2019

^b Gavin stood down as chief executive at midnight on 31 January 2019 and Philip took over from 1 February 2019

^c The total remuneration figure includes the ISP award as CEO BT Retail and the first award as chief executive, granted in 2013

^d Ian stepped down on 10 September 2013 and Gavin took over from that date.

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 termination provisions:

Chairman and executive directors

	Commencement date	Termination provisions
Jan du Plessis	1 June 2017	Terminable by the company on 12 months' notice and by the director on six months' notice.
Philip Jansen	1 January 2019	
Simon Lowth	6 July 2016	

Independent non-executive directors

	Commencement date	Termination provisions
Ian Cheshire	16 March 2020	Letter of appointment on a rolling basis terminable by either party by three months' written notice.
Iain Conn	1 June 2014	
Isabel Hudson	1 November 2014	
Mike Inglis	1 September 2015	
Matthew Key	25 October 2018	
Allison Kirkby	15 March 2019	
Leena Nair	10 July 2019	
Nick Rose	1 January 2011	

Non-independent, non-executive director

	Commencement date	Termination provisions
Tim Höttges	29 January 2016	Appointed as a non-independent, non-executive director under the terms of the Relationship Agreement between BT and Deutsche Telekom. The appointment is terminable immediately by either party.

As announced on 16 March 2020, Sara Weller will join the Board as an independent non-executive director. Sara's appointment becomes effective on 16 July 2020, immediately before the 2020 AGM. Also, as announced on 1 May 2020, Adel Al-Saleh will join the Board with effect from 15 May 2020, as a non-independent, non-executive director and Deutsche Telekom's nominated representative, replacing Tim Höttges.

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.

Non-executive directors' letters of appointment

Each independent non-executive director has an appointment letter setting out the terms of his or her appointment. 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 and additional time may be required during periods of increased activity.

During the year, following the recommendation of the *Nominations Committee*, the Board agreed an amendment to the term and notice period for the current and new independent non-executive directors such that they are now on a rolling basis subject to a mutual three-month notice period and annual election/re-election by shareholders at the AGM.

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. Adel Al-Saleh has also been appointed on the same basis.

Inspection by the public

The service agreements and letters of appointment are available for inspection by the public at BT's registered office.

Remuneration in context

Consideration of colleague and stakeholder views

Our employees are vital to our business. At BT, we believe in fairness throughout the company. The group operates a number of general principles applied to all levels:

- We will provide a competitive package with reference to the relevant market for each colleague
- We will ensure colleagues can share in the success of the business, and operate a variety of all-employee share plans, encouraging colleagues to become shareholders
- Where appropriate, variable remuneration is provided to incentivise employees towards driving the strategic aims of the business. Performance is based on both individual performance and the performance of the company as a whole, measured on a consistent basis for senior executives and all other employees
- We offer a range of employee benefits, many of which are available to all colleagues
- We aim for transparency and a fair cascade of remuneration throughout the group
- Employment conditions for all employees reflect our values and are commensurate with a large publicly-listed company, including high standards of health and safety and equal opportunities.

The committee supports fairness and transparency of remuneration arrangements and the Policy has been designed to align with the remuneration philosophy and principles that underpin remuneration across the wider group. To support this, the committee receives regular updates on remuneration practices across the group.

Whilst the committee does not directly consult with our employees as part of the process of determining executive pay, the Board does receive feedback from employee surveys that takes into account remuneration throughout the organisation, as well as feedback from the *Colleague Board*, which is fed back to the committee by the designated non-executive director for workforce engagement.

When setting executive directors' remuneration, the committee considers the remuneration of other senior managers and colleagues in the group more generally to ensure that arrangements for executive directors are appropriate in this context. When determining salary increases for executive directors, the committee considers the outcome of the wider pay review for the group.

Chief executive pay ratio

The table below sets out the chief executive pay ratios as at 31 March 2020, as well as those reported in respect of the prior year. The report will build up over time to show a rolling ten-year period.

The ratios compare the single total figure of remuneration of the chief executive with the equivalent figures for the lower quartile (P25), median (P50) and upper quartile (P75) employees.

A significant proportion of the chief executive's remuneration is delivered through long-term incentives, where awards are linked to share price movements over the longer term. This means that the ratios will depend significantly on long-term incentive outcomes and may fluctuate from year to year.

Total remuneration

	Chief Executive	Employee remuneration			Pay ratio		
		P25	P50	P75	P25	P50	P75
2019	£2,444,000	£34,281	£41,477	£51,594	71:1	59:1	47:1
2020	£3,248,012	£34,881	£42,173	£51,351	93:1	77:1	63:1

Base salary

	Chief Executive	Employee remuneration			Pay ratio		
		P25	P50	P75	P25	P50	P75
2019	£1,222,000	£30,090	£35,918	£41,740	37:1	31:1	27:1
2020	£1,100,000	£31,144	£37,321	£42,800	35:1	29:1	26:1

We have used the 'Option B' methodology (based on gender pay reporting), as the most robust way to identify the individual reference points within an organisation with multiple operating segments.

The P25, P50 and P75 employees were identified from the company's gender pay reporting data, based on the April snapshot period at the start of each respective year. We then identified the 80 employees above and below each of the 'P' points to form enlarged groups. This approach is thought to be an appropriate representation – while the underlying data is fairly consistent given the size of the UK population, this methodology reduces volatility in the underlying data, and helps account for differences in the gender pay and pay ratio calculation methodologies. Other than the exclusion of a small number of data points for leavers and divestments, no other adjustments were made to the underlying data.

The total FTE remuneration paid during the year in question for each employee in each of the groups was then calculated, on the same basis as the information set out in the 'single figure' table for the chief executive. Bonus payments in respect of each year have been determined based on the latest available information at the time of analysis. The median total remuneration figure for each group was then used to determine the three ratios.

Percentage change in remuneration of the chief executive and all employees

The table below illustrates the increase in salary, benefits and annual bonus for Philip Jansen in the role as 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 25,495 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 ^a	Bonus ^a
% Change in chief executive remuneration	0%	(26.7)%	(10.7)%
% Change in comparator group	2.5%	0%	(26.1)%

^a As he was appointed on 1 February 2019, the increase in benefits and annual bonus for the chief executive has been determined on a full-year equivalent basis to ensure a like-for-like comparison.

Relative importance of the spend on pay

The table below shows the percentage change in total remuneration paid to all employees compared to expenditure on dividends and share buybacks.

Area	2019/20 (£m)	2018/19 (£m)	% change
Remuneration paid to all employees	5,327	5,382	(1)%
Dividends/share buybacks	1,607	1,513	6%



Gender pay gap reporting

This is the third year in which we have published our Gender Pay Gap results. Our 2019 report, including contextual information and detail on the initiatives we have underway to close our gender pay gap, can be viewed on our website.

At a group level, our median hourly pay difference between male and female colleagues is 4.8% (reduced from 5.0% in 2018). This compares favourably with the telecommunications industry median of 12% (ONS provisional), and the UK national median of 17.3%. While we have made progress in addressing our gender pay gap, the gap remains as we have fewer women than men at senior and leadership levels, and fewer women generally throughout our organisation. We will continue to monitor and address this issue, drawing on research from around the world.

 Our Gender Pay Gap report is available on our website bt.com/genderpaygap

Nick Rose

Chair of the Remuneration Committee
6 May 2020