Report on Directors' Remuneration

Review of the year
The past year has been challenging. Although good progress has been made in a number of areas unfortunately our performance has been significantly affected by the accounting irregularities in our Italian business, the issues that arose in Openreach around Deemed Consent and the significant challenges we faced in the UK public sector and international corporate markets. Our adjusted EBITDA was £7,645m compared with our initial outlook for the year of around £7.9bn and our normalised free cash flow was £2,782m compared with our initial outlook for the year of £3.1bn to £3.2bn. We have also seen a 28% fall in the share price over the last year.

Outcomes for the year
The committee has made a number of difficult decisions this year in light of these circumstances and these are summarised below.

2016/17 Bonus: The annual bonus is determined by a number of factors including profit, cash flow, revenue, customer experience and EE integration synergies. The threshold targets for revenue, customer experience and for the EE synergies were achieved. However the committee used its discretion to reduce the bonus payable to the group chief executive and outgoing group finance director to zero.

In the case of the new group finance director, Simon Lowth, who joined the company in July 2016, the committee has calculated a bonus based on the formulaic outcome of the company performance measures and an assessment of his personal performance. This resulted in an annual bonus of 38.2% of maximum for Simon Lowth.

Details of the outcome of performance against the targets for the 2016/17 annual bonuses for the group chief executive, the new group finance director and the outgoing group finance director are set out on page 126.

2014–2017 ISP vesting: The group returned below threshold performance against all of the performance measures for the 2014 ISP. This resulted in none of the shares under the award vesting. More information on the 2014 ISP is on pages 126 to 127.

2017–2020 ISP award: The level of ISP award for the chief executive was reduced from 400% of salary to 350% of salary for this year in light of the share price fall over the last year.

Application of malus due to Italian issues: In January we published revised results for 2014/15 and 2015/16 after our investigations into accounting irregularities in our Italian business. The committee has recalculated the annual bonuses for the years in question and the outcome of vesting for the 2013 ISP to reflect the revised results. This clearly showed that the payouts based on the revised results would have been lower than those actually paid at the time.

The committee has therefore decided to exercise its discretion and apply the malus provisions in the Deferred Bonus Plan to reduce the number of shares under award, for the executive directors, plus the *Operating Committee* members who received payments under the bonus arrangements and/or the ISP, and for the company secretary. This action ensures the restitution of overpayments to these recipients and places them in the same position they would otherwise have been in had the awards been based on the revised results. Further details are shown on page 133.

The committee will keep under active review whether any additional employees' awards should be adjusted. In addition, where employees have been dismissed or resigned as a result of our investigations into the issues in Italy, shares and incentives have been lapsed in full as a result.

Looking ahead
The committee considered the base salaries of the executive directors in the context of the UK employee population. We have agreed a 2.1% annualised pay settlement for our team members in the UK. However, the budget for increases for our managerial and professional team will be lower than this and any increases will be more targeted and discretionary. The executive directors' salaries will remain unchanged.

Good progress has been made on the integration of the EE business and the realisation of the associated cost synergies. As we move into the second year of integration, the committee is satisfied that EE is well embedded into the business, such that it is now business-as-usual, and has elected to remove the specific integration synergy target and increase the weighting of the earnings per share and free cash flow targets for the annual bonus for 2017/18.

Finally, we agreed the remuneration package for the incoming chairman, Jan du Plessis, who joins the board on 1 June and becomes chairman on 1 November, the details of which are set out on page 135. This remuneration arrangement will remain fixed for five years.

Renewal of Remuneration Policy
Throughout the year we have continued to operate within the shareholder approved Remuneration Policy. We have conducted a comprehensive review of the Policy ahead of the 2017 AGM where shareholders will again have the opportunity to vote on it.

The committee has concluded that the existing Policy (with some minor changes), remains aligned to the business strategy and current best market practice and therefore no material changes are proposed.

The committee continues to maintain the link between pay and performance and remains committed to doing so in the future.

Tony Ball
Chairman of the Remuneration Committee
11 May 2017

Focus on Remuneration

Fixed pay

Base salary	No increases for executive directors in 2017/18. Base salaries during the year were Gavin Patterson £996,825, Simon Lowth £700,000 and Tony Chanmugam £646,000.
Pension	Pension arrangements during the year were the same for all executive directors, each receiving a cash allowance of 30% of salary. There are no changes proposed to the pension arrangements for 2017/18.
Other benefits	Benefits include company car, fuel or driver, personal telecommunication facilities and home security, medical and dental cover (for the directors and immediate family), life cover, professional subscriptions, personal tax advice and financial counselling. There are no changes proposed to the benefit framework for 2017/18.

Annual bonus*

2016/17 maximum award	The maximum level of bonus opportunity was 240% for the chief executive, 210% for the outgoing group finance director (pro-rated for time) and 180% for the new group finance director (pro-rated for time).
2016/17 performance measures	Group performance was based on: – 60% financial (adjusted earnings per share, normalised free cash flow, revenue (excluding transit) and integration synergies) – 40% non-financial (personal objectives and customer experience)
Deferral	One-third of the bonus is deferred into shares for three years.
Award in respect of 2016/17	Despite some of the performance targets being met, the committee exercised discretion and determined that no bonus would be awarded to the chief executive and the outgoing group finance director and a bonus representing 38.2% of maximum would be awarded to the new group finance director.
Changes for 2017/18	No changes are being proposed to the maximum bonus opportunities. Now that EE is well embedded into the business, the committee has elected to remove the integration synergy measure and increase the weightings of the earnings per share and free cash flow measures.

Incentive Share Plan (ISP)*

2016/17 maximum award	The Policy provides for a maximum annual ISP award of 500% for an executive director. The chief executive received an award of 400% of salary. The new group finance director received an award of 350% of salary. No award was made to the outgoing group finance director.
2016/17 performance measures	Awards are subject to performance conditions: 40% based on relative TSR, 40% based on normalised free cash flow and 20% based on growth in underlying revenue excluding transit adjusted for the acquisition of EE over a three year period.
Vesting of 2014 award	The 2014 ISP lapsed in May 2017 as the threshold target was not met for any of the performance conditions.
Changes for 2017/18	The award to the chief executive will be reduced from 400% of salary to 350% of salary as a result of the share price fall over the last year. It is expected that the award level will return to 400% in 2018. The award to the group finance director will remain at 350% of salary. No changes are proposed to the performance measures or operation of the ISP for awards to be granted in 2017/18.

Shareholding

Shareholding requirements	The chief executive is required to build up a holding equal to 300% of salary and the new group finance director a holding of 250% of salary.

Malus and clawback

Application of malus and clawback	In the context of the publication of revised results for 2014/15 and 2015/16, the committee has exercised its discretion and applied malus to outstanding deferred bonus awards to ensure restitution of overpayments of previous incentive awards.

* Annual bonus and ISP awards are subject to malus and clawback provisions in certain circumstances. The ISP has an additional holding period of two years post vesting. More detail is available on page 145.

Remuneration Principles

Our remuneration principles are to maintain a competitive remuneration package that promotes the long-term success of the business, avoids excessive or inappropriate risk taking and aligns managements' interests with those of shareholders.

We believe in pay for performance against challenging targets and stretching goals for the annual bonus (including deferred shares) and long-term incentive shares. A significant proportion of the total remuneration package is therefore variable and linked to corporate performance.

The committee determines the remuneration policy for the executive directors and the chairman. The chairman is not currently a member of the committee.

The committee reviews the performance targets regularly to ensure that they are both challenging and closely linked to the group's strategic priorities. Furthermore, because a large part of the remuneration package is delivered in shares and senior executives are required to build up a significant shareholding themselves, they are directly exposed to the same gains or losses as all other shareholders.

In setting directors' remuneration, the committee takes account of the pay and employment conditions of all our employees, the performance of the group and the individual, the current views and guidelines of shareholders and their representatives, and general market conditions. Remuneration arrangements at other companies of a similar size and complexity are also reviewed for guidance.

The committee continues to keep under review the relationship of risk to remuneration. The chair of the *Audit & Risk Committee* is currently a member of the *Remuneration Committee*.

The committee is also satisfied that the incentive structure for senior executives does not raise environmental, social or governance risks by inadvertently motivating irresponsible behaviour. Part of the annual bonus depends upon an assessment of each senior executive's personal contribution which typically includes the environmental, social, health and safety and governance agenda.

The committee retains absolute discretion to reduce variable compensation in light of risk and the group's overall performance. We would only use this in exceptional circumstances.

Annual Remuneration Report

This part of the Report summarises key elements of the directors' remuneration in 2016/17.

Single figure remuneration

The following sets out the full review of directors' emoluments, including bonus and deferred bonus, and long-term incentive plans and pension arrangements.

Directors' emoluments (audited)

Directors' emoluments for the financial years 2016/17 and 2015/16 are set out in the table below.

	Basic salary and fees (2016/17) £000	Basic salary and fees (2015/16) £000	Benefits excluding pension (2016/17) £000	Benefits excluding pension (2015/16) £000	Annual Bonus[a,b] (2016/17) £000	Annual Bonus[a] (2015/16) £000	ISP[c] (2016/17) £000	ISP[d] (2015/16) £000	Pension allowance net of pension contributions[e] (2016/17) £000	Pension allowance net of pension contributions[e] (2015/16) £000	Total 2016/17 £000	Total 2015/16 £000
Chairman												
Sir Michael Rake	675	675	35	31							710	706
Executive Directors												
G Patterson[f]	993	969	54	57	–	1,057	–	2,906	298	291	1,345	5,280
S Lowth[g]	499	–	17	–	343	–	–	–	151	–	1,010	–
Non-executive directors												
T Ball	124	112									124	112
I Conn	121	103									121	103
T Höttges[h]	–	–									–	–
I Hudson[i]	179	99	1								180	99
M Inglis[i]	86	47	1								87	47
K Richardson[j]	126	114	18	16							144	130
N Rose[i]	159	152	2								161	152
J Whitbread	102	97									102	97
Sub-total	**3,064**	**2,368**	**128**	**104**	**343**	**1,057**	**–**	**2,906**	**449**	**291**	**3,984**	**6,726**
Former executive director												
T Chanmugam[k]	184	643	19	32	–	587	–	1,351	55	193	258	2,806
Total	**3,248**	**3,011**	**147**	**136**	**343**	**1,644**	**–**	**4,257**	**504**	**484**	**4,242**	**9,532**

a Annual bonus shown includes both the cash and deferred share element as reported in the 2015/16 Remuneration Report. The deferred element of the 2016/17 bonus includes the value of deferred shares to be granted in June 2017. Further details of the deferred element are set out below.
b As a result of investigations into improper accounting practices in BT's Italian business, the committee has exercised its discretion and applied the malus provisions under the Deferred Bonus Plan. This will be applied in 2017/18 and reflected in the single figure table in the Annual Report 2018. Further details can be found on page 133.
c The ISP 2014 granted in June 2014 will lapse in full. Further details are provided on pages 126 to 127.
d Vesting of ISP 2013 granted in June 2013 and vested in May 2016 at a share price of £4.45. The value shown last year of £3,022 for the chief executive and £1,405 for the then group finance director were based on an estimated share price of £4.63.
e Pension allowance paid in cash for the financial year – see 'Total pension entitlement' on page 127.
f The 2015/16 ISP figure reflects two awards granted in 2013. One as CEO BT Retail and one as chief executive.
g Simon Lowth was appointed as a director on 12 July 2016.
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 Includes an additional fee for regular travel to Board and Board Committee meetings.
k Tony Chanmugam retired as a director on 13 July 2016. Under the terms of his service contract, he continued to receive his salary and contractual benefits until the end of his notice period, being 31 March 2017. Further details are provided on page 128.

Additional disclosures relating to the single figure table

Salaries

We reviewed Gavin Patterson's salary and increased it to £996,825 in June 2016. This was an increase of 2.5% from the prior year. The salary increase was consistent with the approach taken for substantially all of our UK employees who received an average increase of 2.5%. No salary increase was made to Tony Chanmugam in light of his stepping down during the year.
We agreed Simon Lowth's salary (£700,000) at the time of his appointment in July 2016.

Benefits

Benefits provided to executive directors and the chairman include company car, fuel or driver, personal telecommunication facilities and home security, medical and dental cover (for the directors and immediate family), life cover, professional subscriptions, personal tax advice and financial counselling.

Annual bonus

The annual bonus opportunities for the executive directors in 2016/17 were as follows:

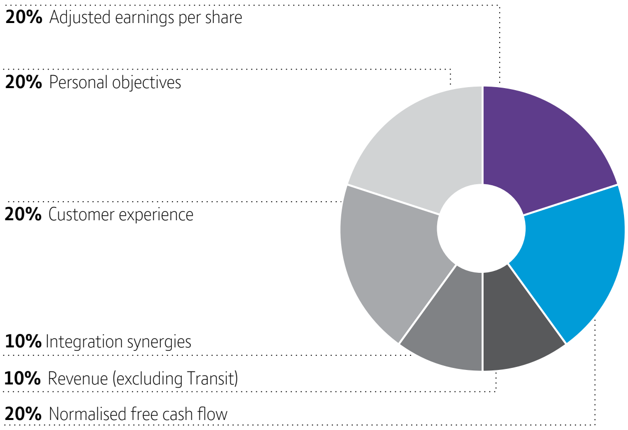
Level of 2016/17 bonus

	Chief executive	New group finance director	Outgoing group finance director
Annual cash bonus	Target 80% of salary	Target 80% of salary	Target 70% of salary
	Maximum 160% of salary	Maximum 120% of salary	Maximum 140% of salary
Deferred bonus in shares	Target 40% of salary	Target 40% of salary	Target 35% of salary
	Maximum 80% of salary	Maximum 60% of salary	Maximum 70% of salary
Total bonus	Target 120% of salary	Target 120% of salary	Target 105% of salary
	Maximum 240% of salary	Maximum 180% of salary	Maximum 210% of salary

The bonus payment for the outgoing group finance director is pro-rated in respect of the period for which he was performing full-time duties. The bonus payment for the new group finance director is pro-rated in respect of the period for which he was in full-time employment. One third of any bonus paid is deferred into shares for three years with the remaining two-thirds paid in cash.

The weighting of the annual bonus structure for 2016/17 is set out below.

Chief Executive and Group Finance Director
% Weighting



As a result of the accounting irregularities in our Italian business, the issues that arose in Openreach around Deemed Consent and the significant challenges we faced in the UK public sector and international corporate markets, the committee has exercised its discretion and moved not to award bonuses to the chief executive and the outgoing group finance director in respect of 2016/17 despite some of the performance targets being met.

The table below provides an overview of performance against the targets for the 2016/17 annual bonus.

Measure	Threshold	Target	Maximum	Outcome	Result % of max[a]
Adjusted EPS (p)[b]	30.9	32.5	34.9	28.9	0%
Normalised free cash flow (£m)[c]	3,064	3,225	3,467	2,782	0%
Revenue (£m)[d]	23,661	23,900	24,259	23,678	26.7%
Integration synergies	111	117	126	152	100%
Customer experience[e]	50	100	200	124.33	62.2%

[a] Threshold represents 25% of maximum. Target represents 50% of maximum.
[b] Adjusted EPS is defined on page 21.
[c] Normalised free cash flow is defined on page 21.
[d] Revenue is defined on page 20.
[e] The committee applied the EPS gateway and no payment was made to executive directors in respect of Customer Experience performance.

As described above, the committee moved not to award bonuses to the chief executive and the outgoing group finance director in respect of 2016/17. The chief executive and outgoing group finance director both understood the committee's decision not to award a bonus and indicated that they would not have accepted a bonus should one have been approved. For Simon Lowth, the new group finance director who joined the company in July 2016, the committee calculated a bonus based on the formulaic outcome of the company performance measures and an assessment of his personal performance.

Simon Lowth achieved 80% of the maximum score for his personal contribution. The result for the personal contribution score was for significant contribution to commercially sensitive strategic programmes. As set out in the table opposite, the committee applied the EPS gateway and no payment was made in respect of the customer experience performance. This resulted in a total annual bonus, paid in both cash (two-thirds) and deferred shares (one-third) representing 68.8% of his salary (pro-rated to reflect the period he was in full-time employment during the year) and 38.2% of the maximum opportunity. The deferred shares will be granted in June 2017.

Bonus award and proportion of value

Element of bonus	Gavin Patterson	Simon Lowth[a]	Tony Chanmugam[b]
EPS	0%	0%	0%
Normalised free cash flow	0%	0%	0%
Revenue growth	0%	9.25%	0%
Intergration synergies	0%	34.9%	0%
Customer experience[c]	0%	0%	0%
Personal contribution	0%	55.85%	0%

[a] New group finance director.
[b] Outgoing group finance director.
[c] The committee applied the EPS gateway and no payment was made to executive directors in respect of Customer Experience performance.

Incentive share plan 2014

The ISP is a conditional share award. The performance conditions are assessed to 31 March 2017 and the awards would ordinarily vest in May 2017. The performance conditions are based 40% on relative TSR, 40% on normalised free cash flow, and 20% on growth in underlying revenue excluding transit over a three-year performance period. The threshold performance target in respect of each measure was not met and therefore the awards will lapse in full.

TSR

The TSR element is measured against a comparator group containing other telecommunications companies and companies which are of a similar size or market capitalisation, have a similar business mix and spread as BT or operate in comparable markets.

BT's TSR comparator group for the 2014 ISP comprised the following companies:

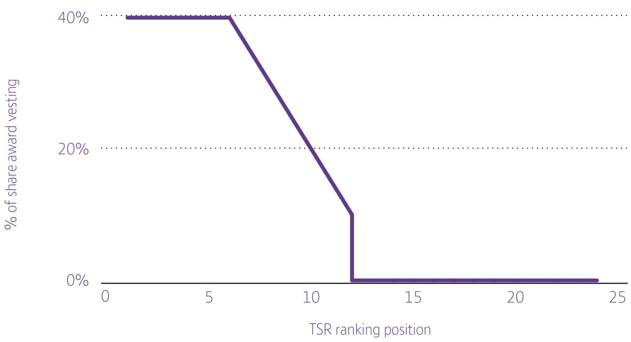
Accenture	IBM	Telefónica
AT & T	National Grid	Telekom Austria
Belgacom	Pharol (formerly Portugal Telecom)	Telenor
Cap Gemini	Royal KPN	TeliaSonera
Centrica	Sky	Verizon
Deutsche Telekom	Swisscom	Vodafone
France Telecom	TalkTalk	
Hellenic Telecom	Telecom Italia	

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

It uses the official closing price for a company's shares, adjusted for all capital actions and dividends paid. The initial RI is determined by calculating the average RI value taken daily over the three months prior to the beginning of the performance period; and the end value is determined by calculating the average RI over the three months up to the end of the performance period. This mitigates the effects of share price volatility. A positive change between the initial and final values indicates growth in TSR.

The following graph shows the vesting schedule for the TSR element of the 2014 ISP awards.

TSR vesting schedule 2014 awards



The company's TSR performance was -5.63%. This was 18th out of 23 companies during the three-year period and resulted in the threshold target for TSR not being met.

Normalised free cash flow

When we set the performance measures for the 2014 ISP, the threshold for the three-year cumulative normalised free cash flow was set above consensus market expectations at the time, with the upper part of the range considered to be stretching. Following completion of the EE acquisition in January 2016, the free cash flow measure was revised to reflect the enlarged group. We disclosed the adjustment in the 2016 Annual Report. We achieved a three-year cumulative normalised free cash flow outcome of £8.4bn. This resulted in the threshold target of £8.67bn for normalised free cash flow not being met.

Underlying revenue excluding transit

This measure reflects the group's aim to drive sustainable profitable revenue growth. Following completion of the EE acquisition in January 2016, the revenue measure was revised to reflect the enlarged group. The measure excludes specific items, foreign exchange movements and disposals and is calculated as though EE has been part of the group from 1 April 2015. We disclosed the adjustment in the 2016 Annual Report. The measure was based on growth in underlying revenue excluding transit measured against the baseline of 2013/14, with the threshold set as growth of 2.35% cumulative over the three years.

Over the three-year period we grew underlying revenue by 1.39%, resulting in the threshold target for revenue not being met.

Total pension entitlements (audited)

The BT Pension Scheme (BTPS) closed to new entrants on 31 March 2001. None of the executive directors participate in future service accrual in the BTPS. Tony Chanmugam has deferred benefits in the BTPS and benefitted from death in service cover which has now ceased.

New UK employees are eligible to join a defined contribution scheme. These are typically personal pension plans. For executive directors, the company agrees to pay a fixed percentage of the executive's salary each year which can be put towards the provision of retirement benefits. Executive directors who have never been members of the BTPS benefit from death in service cover that would provide a lump sum of four times salary and a dependant's pension of 30% of capped salary.

Gavin Patterson receives an annual allowance equal to 30% of salary in lieu of pension provision as set out in the table on page 125. Gavin has previously been a member of the BTRSS but neither he nor the company has made any contribution to the scheme during 2016/17. BT also provides death in service cover of a lump sum of four times his salary plus a dependant's pension of 30% of his capped salary.

Simon Lowth receives an annual allowance equal to 30% of salary in lieu of pension provision as set out in the table on page 125. Simon has not previously been a member of any of the company pension schemes. BT also provides death in service cover of a lump sum of four times his salary plus a dependant's pension of 30% of his capped salary.

Tony Chanmugam was not a contributing member of any of the company pension schemes; he did not accrue any BTPS pension over the financial year and no other contributions were made. Further information is provided in the table below. The company agreed to pay him an annual amount equal to 30% of salary in lieu of pension provision as set out in the table on page 125. Tony still had deferred payment of the BTPS benefit payable from his 60th birthday. BT provided death in service cover of a lump sum of four times his salary which would cease if his BTPS benefits were put into payment.

Sir Michael Rake is not a member of any of the company pension schemes, and the company made no payments towards retirement provision for him. BT provides him with a lump sum death in service benefit of £1m.

Deferred pension benefits at 31 March 2017 (audited)

The table below shows Tony Chanmugam's pension benefits at 31 March 2017. There was no pension accrued over the financial year and no contributions were made into the pension plans.

	Normal retirement age	Accrued pension (£000)	Additional scheme lump sum (£000)
Tony Chanmugam[a]	60	258	775

[a] Tony Chanmugam's contributions in 2016/17 were £nil (2015/16: £nil). Figures represent total benefits accrued across two BT pension schemes. Tony is beyond the pension plans' normal retirement age and is not drawing a pension.

Awards granted during the year (audited)

2016 ISP awards

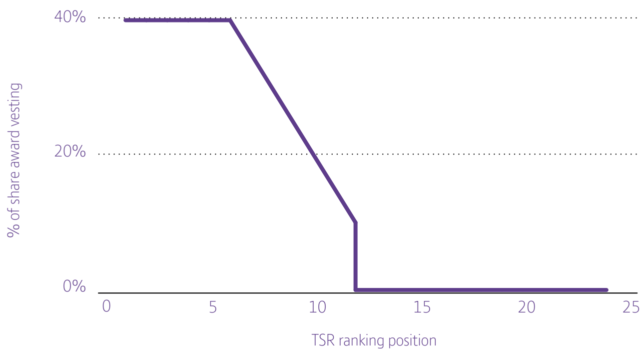
The 2016 ISP awards were made in June and July 2016 as set out below and on page 131. The award to Gavin Patterson represented 400% of his salary and for Simon Lowth it was 350% of salary. No award was made to the outgoing group finance director.

Director	Date of award	ISP award (shares)	Face value of award[a]
Gavin Patterson	20 June 2016	988,954	£3,987,297
Simon Lowth	29 July 2016	604,366	£2,449,978

[a] Face value based on share price at the date of grant of 403.18p and 405.38p respectively. The grant price is calculated using the average middle-market price of a BT share for the three days prior to grant.

The performance conditions are based 40% on relative TSR, 40% on normalised free cash flow, and 20% on growth in underlying revenue excluding transit over a three-year performance period from 1 April 2016 to 31 March 2019. The performance conditions are the same for each director. The target ranges for TSR; the normalised free cash flow and underlying revenue growth excluding transit for the three-year performance period 2016/17–2018/19 is set out in the table below.

TSR vesting schedule 2016 awards



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

[a] Vesting levels between threshold and maximum will be on a straight line basis.
[b] Underlying revenue excluding transit.

The committee believes that the free cash flow and revenue performance measures are challenging, and the financial performance necessary to achieve the upper end of the range for each target is stretching.

Please see pages 126 to 127 for details of how TSR is calculated. With one change, the TSR comparator group for the 2016 ISP awards was the same for awards granted in June 2015. The committee agreed the removal of Pharol (formerly Portugal Telecom) on the basis of scale compared to others in the group.

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

Deferred shares

A proportion of the 2015/16 annual bonus was awarded in deferred shares. The table below provides further details. No award was made to the new group finance director, having joined in July 2016.

Director	Date of award	DBP award (shares)	Face value of award[a]
Gavin Patterson	20 June 2016	87,412	£352,430
Tony Chanmugam	20 June 2016	48,564	£195,802

[a] Face value based on share price at grant of 403.18p. The grant price is calculated using the average middle-market price of a BT share for the three days prior to grant.

The deferred shares are not subject to further performance conditions and normally vest in three years if the individual is still employed by BT. Details of all interests in deferred shares are set out on page 130.

When Deferred Bonus Plan (DBP) awards vest, additional shares representing the value of reinvested dividends on the underlying shares are added.

Former directors (audited)

Sir Peter Bonfield received, under pre-existing arrangements, a pension of £482,762 in 2016/17 (2015/16: £477,038).

Baroness Jay retired as a non-executive director on 13 January 2008 and was a member of the *Committee for Sustainable and Responsible Business* until standing down on 14 April 2017. She received an annual fee of £10,000 as a member of the *Committee for Sustainable and Responsible Business.*

Phil Hodkinson retired as a non-executive director on 31 January 2016 but continues to be a member of the *Committee for Sustainable and Responsible Business*, for which he receives an annual fee of £10,000.

Payments for loss of office (audited)

Tony Chanmugam retired as a director on 13 July 2016. Under the terms of his service contract, he continued to receive his salary and contractual benefits until the end of his notice period, being 31 March 2017. These payments totalled £462,000 basic salary and fees, £15,000 benefits (excluding pension) and £139,000 pension allowance. As outlined above, no payment will be made in respect of his 2016/17 annual bonus. All payments made to him as a director in respect of 2016/17 are reported in the single figure of remuneration on page 125.

Directors' share ownership

The committee believes that the interests of the executive directors should be closely aligned with those of shareholders. The deferred shares and incentive shares provide considerable alignment.

To increase the alignment between shareholders and executive directors, the chief executive is required to build up a shareholding equal to 300% of salary, and the new group finance director 250% of salary. The aim of this personal shareholding policy is to encourage the build up of a meaningful shareholding in the company over time by retaining shares which they have received under an executive share plan (other than shares sold to meet a National Insurance contribution or income tax liability) or from purchases in the market.

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

At 31 March 2017, the chief executive met his shareholding requirement, as set out in the table below. Having joined the company in July 2016, the group finance director will build his shareholding over time.

Executive director	Personal shareholding as a percentage of salary
Gavin Patterson	1,103%
Simon Lowth	0%
Tony Chanmugam[a]	216%

[a] As at 13 July 2016.

The following table shows the total unvested interests held by the executive directors in the ISP and DBP. The numbers represent the maximum possible vesting levels. The ISP awards will only vest to the extent the performance conditions are met over a three-year period. Full details of all ISP and DBP awards, including performance periods and vesting conditions, are set out on pages 130 to 131.

Unvested interests in shares (audited)

	ISP (subject to performance)		DBP (not subject to performance)	
	1 April 2016	31 March 2017	1 April 2016	31 March 2017
Gavin Patterson	2,734,526	3,046,654	376,092	334,944
Simon Lowth[a]	–	628,928	–	–
Tony Chanmugam[b]	1,270,600	900,663	337,943	245,143

[a] Simon Lowth was appointed to the Board on 12 July 2016. Details of Simon Lowth's ISP and DBP awards are set out on pages 130 to 131.
[b] Tony Chanmugam retired on 13 July 2016 and the number reflects his awards at that date. Details of Tony Chanmugam's ISP and DBP awards are set out on pages 130 to 131.

The table below shows share options held by the directors under the company's all employee sharesave plans as at 31 March 2017. None of the directors held share options with performance conditions.

Share options held without performance conditions – saveshare (audited)

	Share options at 1 April 2016	Options granted during year	Options exercised during year	Value at date of exercise (£)	31 March 2017
Sir Michael Rake	5,172	–	–	–	5,172
Gavin Patterson	5,642	–	–	–	5,642
Simon Lowth[a]	–	–	–	–	–
Tony Chanmugam[b]	6,525	–	–	–	6,525

[a] Simon Lowth joined the Board on 12 July 2016.
[b] Tony Chanmugam retired on 13 July 2016 and the number reflects his options at that date.

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

Directors' interests at 31 March 2017 or date of retirement, if earlier (audited)

The beneficial interests of directors holding office at the end of the year (or at the point of leaving for directors who retired during the year), and their families, in the company's shares at 31 March 2017 and 1 April 2016, or at date of appointment if later, are shown below:

	Number of shares	
Beneficial holdings	31 March 2017	1 April 2016
Sir Michael Rake[a]	148,721	132,957
G Patterson[a]	2,871,032	2,448,772
T Chanmugam[a,b]	310,684	445,268
S Lowth[c]	–	–
T Ball	93,871	23,652
I Conn	19,442	4,442
T Höttges	–	–
I Hudson	8,424	3,552
M Inglis	2,600	1,200
N Rose	125,000	50,000
K Richardson[d]	13,525	10,250
J Whitbread	7,990	7,990
Total	**3,601,289**	**3,128,083**

[a] Includes shares purchased under directshare and free shares awarded under UK allshare. Directshare is a HMRC approved plan that allows BT employees to buy shares out of gross pay. Prior to 2008 BT awarded free shares to UK employees (UK allshare).
[b] Tony Chanmugam retired on 13 July 2016 and the number reflects his holding at that date.
[c] Simon Lowth joined the Board on 12 July 2016.
[d] Shares are held as 2,705 American Depositary Shares (ADS). One ADS equates to five BT ordinary shares.

During the period from 1 April 2017 to 11 May 2017, there were no movements in directors' beneficial holdings. The directors, as a group, beneficially own less than 1% of the company's shares.

The company encourages the chairman and independent non-executive directors to purchase, on a voluntary basis, BT shares with an aggregate value of £5,000 on average each year to further align the interests of non-executive directors with those of our shareholders. The directors are asked to hold these shares until they retire from the Board. This policy is not mandatory.

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

Deferred Bonus Plan awards at 31 March 2017

The following DBP awards have been granted to the directors. These shares will normally be transferred to participants at the end of the three-year deferred period if those participants are still employed by BT. Simon Lowth joined the Board on 12 July 2016 and is due to be granted his first DBP award in June 2017.

	1 April 2016	Awarded[a]	Dividends re-invested	Vested	Lapsed	Total number of award shares 31 March 2017[b]	Vesting date	Price at grant	Market price at vesting	Monetary value of vested award £000
Gavin Patterson										
DBP 2013	141,639	–	–	141,639	–	–	01/08/2016	315.00p	413.01p	585
DBP 2014	133,526	–	5,426	–	–	138,952	01/08/2017	384.20p	–	–
DBP 2015	100,927	–	4,101	–	–	105,028	01/08/2018	449.50p	–	–
DBP 2016	–	87,412	3,552	–	–	90,964	01/08/2019	403.18p	–	–
Former Director										
Tony Chanmugam										
DBP 2013	141,364	–	–	141,364	–	–	01/08/2016	315.00p	413.01p	584
DBP 2014	142,055	–	5,773	–	–	147,828	01/08/2017	384.20p	–	–
DBP 2015	54,524	–	2,215	–	–	56,739	01/08/2018	449.50p	–	–
DBP 2016	–	48,564	1,973	–	–	50,537	01/08/2019	403.18p	–	–

[a] Awards granted on 20 June 2016. The number of shares subject to awards was calculated using the average middle market price of a BT share for the three days prior to the grant. Awards of deferred shares in respect of 2017 will be calculated using the average middle market price of a BT share for the three days prior to grant.

[b] As a result of investigations into improper accounting practices in BT's Italian business, the committee has exercised discretion and applied the malus provisions under the Deferred Bonus Plan. This will be applied in 2017/18. Further details can be found on page 133.

Share awards under long-term incentive schemes held at 31 March 2017

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

	1 April 2016	Awarded	Dividends re-invested	Vested	Lapsed	Total number of award shares 31 March 2017	Performance period end	Price on grant	Market price at vesting	Monetary value of vested award £000
Gavin Patterson										
ISP 2013[a]	394,139	–	–	323,233	70,906	–	31/03/2016	315.00p	445.31p	1,439
ISP 2013[b]	401,669	–	–	329,409	72,260	–	31/03/2016	372.00p	445.31p	1,467
ISP 2014[c]	1,047,567	–	42,574	–	–	1,090,141	31/03/2017	384.20p	–	–
ISP 2015[d]	891,151	–	36,216	–	–	927,367	31/03/2018	449.50p	–	–
ISP 2016[e]	–	988,954	40,192	–	–	1,029,146	31/03/2019	403.18p	–	–
Simon Lowth										
ISP 2016[f]	–	604,366	24,562	–	–	628,928	31/03/2019	405.38p	–	–
Former Director										
Tony Chanmugam[g]										
ISP 2013[a]	369,937	–	–	303,385	66,552	–	31/03/2016	315.00p	445.31p	1,351
ISP 2014[c]	486,290	–	19,763	–	–	506,053	31/03/2017	384.20p	–	–
ISP 2015[d]	414,373	–	16,840	–	–	431,213	31/03/2018	449.50p	–	–

[a] Awards granted on 20 June 2013. The number of shares subject to awards was calculated using the average middle market price of a BT share for the three days prior to grant of 315.00p. 40% of each award is linked to TSR compared with a group of 23 companies, 40% is linked to a three-year normalised free cash flow measure and 20% to a measure of growth in underlying revenue (excluding transit) over three years. The awards vested in May 2016.

[b] Award granted on 12 November 2013 following appointment as chief executive. The number of shares subject to award was calculated using the average middle market price of a BT share for the three days prior to grant of 372p. 40% of each award is linked to TSR compared with a group of 23 companies, 40% is linked to a three-year normalised free cash flow measure and 20% to a measure of underlying revenue growth (excluding transit) over three years. The award vested in May 2016.

[c] Awards granted on 19 June 2014. The number of shares subject to awards was calculated using the average middle market price of a BT share for the three days prior to grant of 384.20p. 40% of each award is linked to TSR compared with a group of 22 companies, 40% is linked to a three-year normalised free cash flow measure and 20% to a measure of underlying revenue growth (excluding transit) over three years. Performance against the TSR, normalised free cash flow and revenue targets resulted in the threshold targets not being met and none of the shares vesting under the 2014 ISP. The awards lapsed in May 2017.

[d] Awards granted on 18 June 2015. The number of shares subject to awards was calculated using the average middle market price of a BT share for the three days prior to grant of 449.50p. 40% of each award is linked to TSR compared with a group of 22 companies, 40% is linked to a three-year normalised free cash flow measure and 20% to a measure of underlying revenue growth (excluding transit) over three years.

[e] Award granted on 20 June 2016. The number of shares subject to award was calculated using the average middle market price of a BT share for the three days prior to grant of 403.18p. 40% of 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.

[f] Award granted on 29 July 2016. The number of shares subject to award was calculated using the average middle market price of a BT share for the three days prior to grant of 405.38p. 40% of 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] Tony Chanmugam retired from the Board on 13 July 2016 and details of the ISP 2013 award vesting are set out on page 125.

Share options held at 31 March 2017

Number of shares under option:

	1 April 2016	Granted	Lapsed	Exercised	31 March 2017	Option price per share	Market price at date of exercise	Usual date from which exercisable	Usual expiry date
Sir Michael Rake	5,172[a]	–	–	–	5,172	319p	–	01/08/2019	01/02/2020
Gavin Patterson	5,642[a]	–	–	–	5,642	319p	–	01/08/2019	01/02/2020
Simon Lowth	–	–	–	–	–	–	–	–	–
Former director									
Tony Chanmugam	6,024[b]	–	–	–	6,024	249p	–	01/08/2018	01/02/2019
	501[a]	-	–	–	501	359p	–	01/08/2017	01/02/2018

All of the above options were granted for nil consideration.

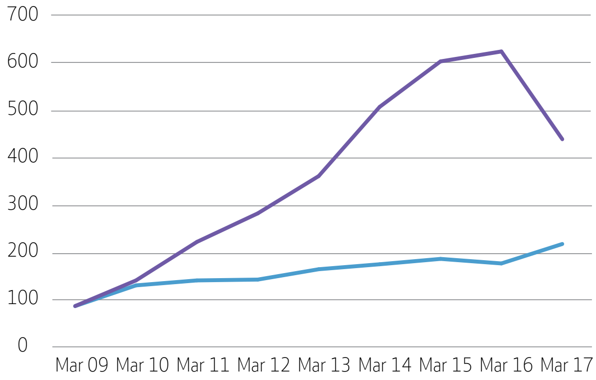
[a] Option granted on 26 June 2014 under the employee saveshare scheme, in which all employees of the company are entitled to participate.

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

Comparison of Chief Executive remuneration to Total Shareholder Return

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

BT's TSR performance vs the FTSE100



Source: Datastream
The graph shows the relative TSR performance of BT and the FTSE100 over the past eight years.

History of chief executive remuneration

Year end	Chief Executive	Total rem £000	Annual bonus (% of max)	ISP vesting (% of max)
2017	Gavin Patterson	1,345	0%	0%
2016[a]	Gavin Patterson	5,396	45%	82.01%
2015	Gavin Patterson	4,562	58%	67.4%
2014[b]	Gavin Patterson	2,901	62%	78.7%
	Ian Livingston	4,236	35%	63.4%
2013	Ian Livingston	9,402	65%	100%
2012	Ian Livingston	8,520	73%	100%
2011	Ian Livingston	4,009	79%	0%
2010	Ian Livingston	3,556	71%	0%

[a] The total remuneration figure includes the ISP award as CEO BT Retail and the first award as chief executive, granted in 2013.
[b] Ian Livingston stepped down on 10 September 2013 and Gavin Patterson took over from that date.

Percentage change in Chief Executive remuneration (comparing 2016/17 to 2015/16)

The table below illustrates the increase in salary, benefits and annual bonus for the chief executive and that of a representative group of the company's employees. For these purposes, we have used the UK management and technical employee population representing around 22,800 people. We believe this broad group provides the most meaningful comparison as they also participate in performance related pay arrangements on a similar basis as executive directors.

	Salary	Benefits[a]	Bonus[b]
% Change in chief executive remuneration	2.5%	–5.26%	–100%
% Change in comparator group[c]	2.5%	0%	-25.7%

[a] The decrease in benefits for the chief executive was around £3,000.
[b] The bonus comparator is based on cash bonus only to give a better like for like comparison.
[c] Comparator group is the UK management and technical employee population representing around 22,800 individuals.

Relative importance of spend on pay

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

Area	2016/17 (£m)	2015/16 (£m)	% Change
Remuneration paid to all employees	5,189	4,639	11.9%
Dividends/share buybacks	1,642	1,390	18%

Implementation of Remuneration Policy in 2017/18

Base salary
The committee decided not to increase salaries for the chief executive and group finance director which will remain at £996,825 and £700,000 respectively.

Benefits
The committee has set benefits in line with the Remuneration Policy set out on pages 139 to 145. There are no changes proposed to the benefit framework for 2017/18.

Pension
Current levels of pension provision for 2017/18 are the same as for 2016/17. Executive directors receive an annual amount equal to 30% of salary in lieu of pension provision.

Clawback and malus
The clawback provisions introduced in 2015/16 will continue for annual bonus payments relating to the 2017/18 financial year, and for the ISP awards that are expected to be made in June 2017.

The annual bonus clawback will apply for one year following payment. The ISP clawback arrangements may be enforced by the committee in the two year period post-vesting of any awards.

In January 2017 we published revised results for 2014/15 and 2015/16 as a result of our investigations into improper accounting practices in BT's Italian business. The committee has recalculated the annual bonuses for the years in question and the outcome of the 2013 ISP award vesting to reflect the revised results. This showed that the payouts based on the revised results would have been lower than those actually paid at the time.

The committee has therefore decided to exercise its discretion and apply the malus provisions in the Deferred Bonus Plan (DBP) to reduce the number of shares under award in recompense for payments and awards otherwise due under the annual bonus arrangements (for both cash and the deferred share element) and (where relevant) the ISP. These malus provisions will be applied in 2017/18 to previous awards made to the executive directors, plus the other *Operating Committee* members who received payments under the bonus arrangements and/or the ISP, and for the company secretary. This action ensures full restitution of the overpayments for the annual bonus (for the cash and the deferred share elements) and for the 2013 ISP award through the enforcement of the malus provisions in the DBP. This places the recipients in the same position they would otherwise have been in had the annual bonus and the ISP award been based on the revised results. The application of the malus provisions are calculated based on the share price at the original grant. For the cash element of the annual bonus, the calculation is based on the share price of the corresponding deferred share award.

The committee will keep under active review whether any additional employees' awards should be adjusted. In addition, where employees have been dismissed or resigned due to the outcome of our investigations into the issues in Italy, shares and incentives have lapsed in full as a result.

The table below sets out the number of shares under the relevant DBP awards following the application of malus as explained above and as agreed by the committee. These shares will normally be transferred to participants at the end of the three-year deferred period if those participants are still employed by BT. Simon Lowth joined on 12 July 2016 and did not receive a bonus in 2016/17 for the 2015/16 financial year.

	Shares under award at 31 March 2017	Shares lapsed following application of malus	Total number of award shares remaining	Value of shares lapsed following application of malus[a]	Vesting date	Price at grant[b]
Gavin Patterson						
DBP 2014	138,952	7,243	131,709	£27,828	01/08/17	384.20p
DBP 2015	105,028	15,867	89,161	£71,327	01/08/18	449.53p
DBP 2016	90,964	59,339	31,625	£239,243	01/08/19	403.18p
Total	**334,944**	**82,449**	**252,495**	**£338,398**		
Former Director						
Tony Chanmugam						
DBP 2014	147,828	3,367	144,461	£12,936	01/08/17	384.20p
DBP 2015	56,739	9,214	47,525	£41,420	01/08/18	449.53p
DBP 2016	50,537	34,490	16,047	£139,057	01/08/19	403.18p
Total	**255,104**	**47,071**	**208,033**	**£193,412**		

[a] The value of the shares lapsed following the application of malus has been calculated using the are price at the time of grant.
[b] The grant price is calculated using the average middle market price of a BT share for the three days prior to grant.

Annual bonus

The level of bonus opportunity for the chief executive and group finance director is set out in the table below. One-third of any bonus will be deferred into shares for a period of three years.

Level of
2017/18 bonus

	Chief executive	Group finance director
Annual cash bonus	Target 80% of salary	Target 80% of salary
	Maximum 160% of salary	Maximum 120% of salary
Deferred bonus in shares	Target 40% of salary	Target 40% of salary
	Maximum 80% of salary	Maximum 60% of salary
Total bonus	Target 120% of salary	Target 120% of salary
	Maximum 240% of salary	Maximum 180% of salary

The 2017/18 annual bonus structure and weighting is set out below.

Chief executive and group finance director

% Weighting

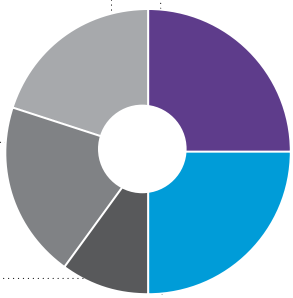
25% Adjusted earnings per share

20% Personal objectives

20% Customer experience

10% Revenue (excluding Transit)

25% Normalised free cash flow



Adjusted earnings per share; normalised free cash flow; and revenue excluding transit have a direct impact on shareholder value. Customer experience (measured through our RFT and the customer perception measure) is vital to the company's long-term health and growth. All four of these measures are KPIs for BT and are defined on pages 20 to 21.

Good progress has been made on the integration of the EE business and the realisation of associated cost synergies. The committee is satisfied that the EE is well embedded into the business, such that it is now business-as-usual, and elected to remove the specific integration synergy target and increase the weighting of the earnings per share and free cash flow targets for the annual bonus for 2017/18.

We do not publish details of the financial targets in advance since these are commercially confidential. We will publish achievement against these targets at the same time as we disclose bonus payments in the Annual Report Form & 20-F 2018 so that shareholders can evaluate performance against those targets.

The personal contribution measure is aligned to our strategy and is assessed by the chairman for the chief executive and by the chief executive for the group finance director and each senior executive. Performance against the personal contribution element is assessed individually and is based on achievement against individual objectives, organisational culture and growth measures.

Incentive Share Plan

Acknowledging the fall in the share price over the last year, the 2017 ISP award for the chief executive will be reduced from 400% to 350% of salary and for the group finance director will be 350% of salary. We expect to grant the awards in June 2017. The number of shares awarded is calculated using the average middle market price of a BT share for the three days prior to the grant. Any shares acquired on the vesting of the 2017 ISP awards will be subject to a holding period of two years, commencing from the end of the three-year performance period.

The holding period will apply to the number of shares received on vesting after tax and other statutory deductions. No further performance measures will apply during the holding period as performance will have already been assessed.

The performance conditions will be the same as for the 2016 ISP: 40% based on relative TSR; 40% based on normalised free cash flow; and 20% growth in underlying revenue excluding transit over a three-year performance period.

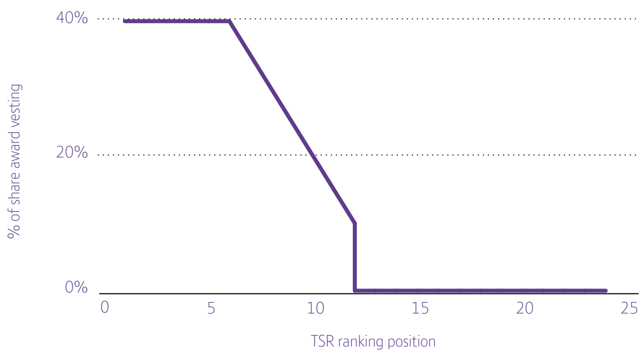
BT's TSR comparator group for the 2017 ISP will be the same as for 2016 and comprise the companies listed below.

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

TSR vesting schedule 2017 awards

For the 2017 ISP awards, 40% of the potential outcome is based on relative TSR. The following graph shows the potential vesting of awards based on the TSR element.

TSR vesting schedule 2017 awards



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

Measure 2017/18–2019/20	Threshold	Level of vesting	Maximum	Level of vesting[a]
Normalised free cash flow[b]	£7.92bn	25%	£8.92bn	100%
Revenue growth[c]	1.8%	25%	4.0 %	100%

[a] Vesting level between threshold and maximum will be on a straight line basis.
[b] Normalised free cash flow is defined on page 21.
[c] Growth in underlying revenue excluding transit is defined on page 20.

The committee continues to believe that the free cash flow and revenue performance measures are challenging, and the financial performance necessary to achieve awards is stretching. In setting these targets the committee took into account the revised outlook for the Group.

Chairman and non-executive director remuneration

The fees for non-executive directors, and for the chairman, were reviewed during the year. The last review of non-executive director fees was in January 2016. In accordance with the Articles of Association, the chairman and executive directors conducted the review, and considered the role and requirements of BT, together with the fees paid to non-executive directors at companies of a similar size and complexity. Following the review, it was agreed no increase should be applied. The chairman's fee was reviewed by the committee (of which he is not a member) and it was agreed no increase should be applied.

Jan du Plessis joins the company on 1 June 2017 as a non-executive director and will become chairman on 1 November 2017. On appointment, he will receive the basic fee per year for a non-executive director (£72,000). On becoming chairman, he will receive a fee of £700,000 per year, fixed for five years. The incoming chairman's fee was reviewed and agreed by the committee.

The basic fee for non-executive directors is £72,000 per year. There are additional fees for membership and chairing a Board committee, details of which are given in the table below:

Committee	Chairman's fee	Member's fee
Audit & Risk	£35,000	£25,000
Integration	n/a[a]	£10,000
Nominating & Governance	n/a[a]	£10,000
Pensions	£25,000	£10,000
Remuneration	£28,000	£15,000
Sustainable & Responsible Business	n/a[a,b]	£5,000
Technology	n/a[a]	£14,000
Equality of Access Board	£72,500	n/a

[a] Where the chairman or chief executive acts as chair of a board committee, no additional committee chair fee is payable.
[b] External members of the CSRB receive a fee of £10,000 a year.

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

An additional fee of £2,000 per trip is paid to those non-executive directors travelling on an inter-continental basis to Board and Board committee meetings. As outlined in the Remuneration Policy, we are proposing to increase this fee to up to £6,000.

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

The Remuneration Committee

This section describes the membership and role of the committee.

Who we are

Tony Ball chairs the *Remuneration Committee*, made up of independent non-executive directors, which met five times during the year.

Our membership and meeting attendance are set out below. Isabel Hudson and Mike Inglis became members of the committee with effect from 1 April 2017.

Committee members

	Meetings	
Member	Eligible to attend	Attended
Tony Ball (chairman)	5	5
Karen Richardson	5	5
Nick Rose	5	4

Other Remuneration Matters

In addition to the committee members, the chairman and chief executive are invited to attend meetings, except in instances where their own remuneration is discussed, or other circumstances where their attendance would not be appropriate.

The committee regularly consults the chief executive, the group HR director, the HR director, reward and pensions, and the group general counsel & company secretary.

Advisers

During the year, the committee received independent advice on executive remuneration matters from Deloitte LLP. Deloitte received £103,450 in fees for these services. The fees are charged on a time spent basis in delivering advice that materially assisted the committee in their consideration of matters relating to executive remuneration.

Deloitte is a founder member of the Remuneration Consultants Group and as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK.

The committee appointed Deloitte to the role of independent advisers to the committee in 2012 following a competitive tender exercise conducted by the committee.

The committee is comfortable that the Deloitte engagement partner and team, who provide remuneration advice to the committee, do not have connections with BT that may impair their independence or objectivity.

In addition, during 2016/17, Deloitte also provided the company with advice on corporate and indirect taxes, assistance with regulatory, risk and compliance issues and additional consultancy services.

Dilution

For a number of years we generally used treasury shares to satisfy the exercise of share options and the vesting of share awards under our employee share plans. We intend to use both treasury shares and shares purchased by the BT Group Employee Share Ownership Trust (the Trust) for share option exercises, and shares purchased by the Trust for the vesting of executive share awards in 2017/18. Shares held in the Trust do not have any voting rights.

At the end of 2016/17, shares equivalent to 1.89% (2015/16: 1.98%) of the issued share capital (excluding treasury shares) would be required for all share options and awards outstanding.

Of these, we estimate that for 2017/18, shares equivalent to approximately 0.45% (2016/17: 0.30%) of the issued share capital (excluding treasury shares) will be required for the all-employee share plans.

Outside appointments

The committee believes that there are significant benefits, to both the company and the individual, from executive directors accepting non-executive directorships of companies outside BT. The committee will consider up to two external appointments (of which only one may be to the board of a major company), for which a director may retain the fees.

Gavin Patterson is a non-executive director of British Airways for which he receives an annual fee of £50,000 and the benefit of free BA flights.

Voting at the 2016 Annual General Meeting

The votes cast in respect of the Annual Remuneration Report at the Annual General Meeting held on 13 July 2016 were:

	Votes cast in favour	%	Votes cast against	%
Approve Annual Remuneration Report	6,638,116,690	98.52%	99,928,946	1.48%

246,127,946 votes were withheld. A vote withheld is not counted when calculating voting outcomes.

Committee evaluation

The committee reviews its performance with Board members and other participants, including through the annual Board evaluation.

Independent non-executive directors' letters of appointment

Each independent non-executive director has an appointment letter setting out the terms of his or her appointment. They do not have service contracts. The letter includes membership of any Board committees, the fees to be paid and the time commitment expected. We ask each non-executive director to allow a minimum commitment of 22 days each year, subject to committee responsibilities, and to allow slightly more in the first year in order to take part in the induction programme. The actual time commitment required in any year may vary depending on business. We highlight that additional time may be required if the company is going through increased activity.

Appointments are for an initial period of three years. During that period, either party can give the other at least three months' notice of termination. All Board appointments automatically terminate in the event of a director not being elected or re-elected by shareholders at the Annual General Meeting. The appointment of a non-executive director is terminable on notice by the company without compensation. At the end of the period, the appointment may be continued by mutual agreement.

Further details of appointment arrangements for independent non-executive directors are set out on page 137.

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

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

Directors' service agreements and letters of appointment

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

Chairman and executive directors	Commencement date	Expiry date of current service agreement or letter of appointment
Sir Michael Rake	26 September 2007	The agreement is terminable by the company on 12 months' notice and by the director on six months' notice.
Gavin Patterson	10 September 2013	Initial term until 10 September 2014, and thereafter terminable by the company on 12 months' notice and by the director on six months' notice.
Simon Lowth	6 July 2016	Terminable by the company on 12 months' notice and by the director on six months' notice.
Non-executive directors		
Tony Ball	16 July 2009	Letter of appointment was for an initial period of three years. The appointment was extended for a further three years in June 2015 following extension in 2012.
Nick Rose	1 January 2011	Letter of appointment was for an initial period of three years. The appointment was extended for a further three years in December 2013.
Karen Richardson	1 November 2011	Letter of appointment was for an initial period of three years. The appointment was extended for a further three years in October 2014.
Jasmine Whitbread	19 January 2011	Letter of appointment was for an initial period of three years. The appointment was extended for a further three years in December 2013.
Iain Conn	1 June 2014	Letters of appointment are for an initial period of three years.
Isabel Hudson	1 November 2014	
Mike Inglis	1 September 2015	
Tim Höttges	29 January 2016	Appointed as a non-independent non-executive director under the terms of the Relationship Agreement between BT and Deutsche Telekom. The appointment is terminable immediately by either party.

There are no other service agreements, letters of appointment or material contracts, existing or proposed, between the company and any of the directors. There are no arrangements or understandings between any director or executive officer and any other person pursuant to which any director or executive officer was selected to serve. Jan du Plessis joins the board as a non-executive director on 1 June 2017 and will become chairman with effect from 1 November 2017. There are no family relationships between the directors.

Inspection by the public

The service agreements and letters of appointment are available for inspection by the public at the registered office of the company. They will also be available for inspection commencing one hour prior to the start of our AGM, to be held in London on 12 July 2017.

Tony Ball
Chairman of the Remuneration Committee
11 May 2017

Remuneration policy

The following pages set out our directors' remuneration policy (the 'Policy') which will be put forward for shareholder approval at the 2017 AGM on 12 July 2017 in accordance with section 439A of the Companies Act 2006. Subject to approval at the AGM, this Policy will apply from the date of the AGM. The Policy is divided into separate sections for the executive directors and the chairman and the non-executive directors.

Minor changes have been made to the Policy to align it with the business strategy and evolving investor and HMRC guidance.

The Policy was previously approved by shareholders at the AGM in 2014 and votes cast were:

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

208,032,899 votes were withheld. A vote withheld is not counted when calculating voting outcomes.

Legacy matters

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

Minor amendments

The committee may make minor amendments to the arrangements for the directors as described in the Policy, for regulatory, exchange control, tax or administrative purposes, or to take account of a change in legislation.