Remuneration Policy
Executive Directors and Chairman

Policy Element	Operation and Opportunity	Performance measures or basis of payment
Base salary Purpose - a core element of remuneration, used to attract and retain executive directors of the calibre required to develop and deliver our business strategy.	Salaries for the executive directors and the chairman are reviewed annually, although an out-of-cycle review may be conducted if the committee determines it appropriate. A review may not necessarily lead to an increase in salary. Salaries are paid monthly in cash. The pay and conditions for all UK employees are considered when setting salaries for executive directors and the chairman.	Whilst there is no maximum salary level, any increase will typically be broadly in line with BT's UK employee population. For the executive directors, higher increases may be made under certain circumstances, such as: – increase in the scope and/or responsibility of the individual's role; – development of the individual within their role; and – where an executive director has been appointed to the Board at a lower than typical level of salary, for example to reflect less experience, larger increases may be awarded to move them closer to market practice as their experience develops. Individual and business performance are taken into account in deciding salary levels.
Benefits Purpose – to support health and wellbeing and provide employees with a market competitive level of benefits.	Executive directors and the chairman receive benefits which typically include (but are not limited to) company car (or monthly allowance in lieu of a car or part of such allowance not used for a car), fuel and/or driver, personal telecommunication facilities and home security, medical and dental cover for the directors and their immediate family, life cover, professional subscriptions, personal tax advice and financial counselling up to a maximum of £5,000 (excluding VAT) a year. Where executive directors are required to relocate, the committee may offer additional expatriate benefits, if considered appropriate. The company purchases directors' and officers' liability insurance to cover the directors, and has in place a directors' and officers' indemnity. The insurance operates to protect the directors in circumstances where, by law, BT cannot provide the indemnity. Further details of the directors' and officers' liability insurance and indemnity are set out on page 147.	While no maximum level of benefits is prescribed, they are generally set at an appropriate market competitive level determined by the committee, taking into account a number of factors including: – the jurisdiction in which the employee is based; – the level of benefits provided for other employees within the group; and – market practice for comparable roles within appropriate pay comparators in that jurisdiction. The committee keeps the benefit policy and benefit levels under regular review.
Annual bonus Purpose – to incentivise and reward delivery of our business plan on an annual basis.	Executive directors are eligible for an annual bonus. The chairman is not eligible for an annual bonus. Awards are based on performance in the relevant financial year. The annual bonus is paid in two elements, a cash element, and a deferred element awarded in shares. Annual bonus amounts are not pensionable. The committee sets annual bonus performance targets each year, taking into account key strategic priorities and the approved budget for the year. The committee ensures that targets set are appropriately stretching in the context of the corporate plan and that there is an appropriate balance between incentivising executive directors to meet targets, while ensuring that they do not drive unacceptable levels of risk or inappropriate behaviours. At least one-third of the annual bonus will be granted in the form of deferred shares to strengthen further the alignment of management interests with the long-term interests of shareholders. The deferred element in shares must be held for a deferral period which will not be less than three years. If following the grant of an award, facts subsequently become known to the committee which would justify a reduction in the award, the committee may reduce the number of deferred shares, including to nil. Further information on the malus and clawback provisions is set out on page 145. The maximum annual bonus opportunity is 240% of base salary.	The committee seeks to effectively reward performance against the key elements of our strategy. Measures used typically include, but are not limited to: – financial performance measures – these are chosen carefully to ensure alignment between reward and underlying financial performance. As an example, such measures may include free cash flow and earnings per share; and – non-financial performance measures – these reflect key company, strategic and individual goals. For example, such measures may include customer experience, purposeful company and personal objectives. In terms of weighting, non-financial measures will typically account for no more than 50% of the total annual bonus. A sliding scale between 0% and 100% of the maximum award applies for achievement between threshold and maximum performance under the bonus plan.

Policy Element	Operation and Opportunity	Performance measures or basis of payment
Incentive Share Plan (ISP) Purpose – to incentivise executive directors over the longer-term, by rewarding delivery of stretching targets linked to our strategy and long-term value creation.	Executive directors are eligible to participate in the ISP. The chairman is not eligible to participate. The ISP forms the long-term variable element of executive remuneration. Awards are discretionary and normally vest subject to performance measured over a period of at least three years. Under the terms of the plan rules the current ISP has no maximum award level. The committee have determined that it will impose limits for executive directors to apply to future awards. The maximum normal ISP award that may be awarded to an executive director in respect of any financial year of the company will be 400% of basic salary. In exceptional circumstances, for example recruitment, this limit may be increased to 500% of basic salary. The proposed award levels for 2017/18 are set out on page 134. In respect of ISP awards made to executive directors there is normally a further holding period of two years, commencing from the end of the performance period applicable to the net number of shares received after tax and other statutory deductions. During the holding period, no further performance measures will apply. If following the grant of an award, facts subsequently become known to the committee which would justify a reduction in the award, the committee may reduce the number of shares, including to nil. Further information on the malus and clawback provisions is set out on page 145.	The committee aligns the performance measures under the ISP with the long-term strategy of the company and considers that strong performance under the chosen measures should result in sustainable value creation: – financial measures – to reflect the financial performance of our business and a direct and focused measure of company success and, for example, may include free cash flow and revenue measures. We set targets to be appropriately stretching, with regard to a number of internal and external reference points including our business plan and consensus market expectations; and – share price performance measures, to reflect the ultimate delivery of shareholder returns which may, for example, include TSR. This promotes alignment between executive director reward and shareholder value creation. Targets are set with reference to wider market practice and positioned at a level which we consider represents stretching performance. Targets will be measured against a comparator group containing other telecommunication companies and/or companies which are either similar in size or market capitalisation and/or have a similar business mix and spread as BT or operate in comparable markets. In terms of weighting, share price performance measures will typically account for no more than 50% of the total award. Under each performance measure, performance below threshold levels would result in nil vesting for that element. For threshold levels of performance, no more than 25% of the maximum for that element would typically vest, rising to 100% for maximum performance.
Pension Purpose – to attract and retain executive directors of the right calibre by providing market competitive post-retirement income.	Executive directors currently receive a cash allowance in lieu of pension. The committee may determine that alternative pension provisions will operate for new appointments to the Board. When determining pension arrangements for new appointments, the committee will give regard to: – the cost of the arrangements; – pension arrangements received elsewhere in the group; and – relevant market practice. The chairman does not receive a pension benefit or payment in lieu of such benefit, but may receive a lump sum death in service benefit of £1m. For executive directors, the maximum cash allowance (or equivalent contribution to an executive director's pension) may not exceed 30% of salary. Executive directors who are not members of the BT Pension Scheme benefit from a death in service cover of a lump sum of 4x salary and a dependant's pension of 30% of capped salary.	

Policy Element	Operation and Opportunity	Performance measures or basis of payment
Save As You Earn Saveshare Scheme Purpose – to encourage employee share ownership.	Executive directors and the chairman may participate in the all-employee saveshare (HMRC approved savings related share option plan) on the same basis as other eligible employees. All participants may invest up to the limits operated by the company at the time set in line with HMRC guidance.	There are no performance measures attached to these awards.
ESIP (directshare) Purpose – to encourage employee share ownership.	Executive directors and the chairman may participate in the Directshare (HMRC approved purchase of shares from gross salary) on the same basis as other eligible employees. All participants may invest up to the limits operated by the company at the time set in line with HMRC guidance.	There are no performance measures attached to these awards.

Notes to the policy table
1. For further information on the performance measures applicable to the annual bonus and ISP see pages 139 and 140.
2. No performance measures are applicable to salary, benefits, pension, BT saveshare and BT directshare in line with market practice.
3. Common award terms
Awards under any of the company's share plans referred to in this report may:
– incorporate the right to receive the value of dividends that would have been paid on the shares subject to an award that vests, which may be calculated assuming the shares were reinvested in shares on a cumulative basis. This value will normally be delivered in the form of additional shares;
– be granted as conditional share awards or in such other form that the committee determines has the same economic effect;
– have any performance conditions applicable to them varied or substituted by the committee if an event occurs which causes the committee to determine that the performance conditions no longer achieve their original purpose, provided that the varied or substituted performance condition would be not be materially less difficult to satisfy;
– be settled in cash at the committee's discretion; and
– be adjusted in the event of any variation of the company's share capital or any demerger, special dividend or other event that may affect the current or future value of awards.

Remuneration arrangements throughout the company

BT operates in a number of different environments and has many employees who carry out diverse jobs across a number of countries:

- all employees, including directors, are paid by reference to the market rate;
- performance for managers is measured and rewarded through a number of performance-related bonus schemes across the group;
- business unit performance measures are cascaded down through the organisation;
- BT offers employment conditions that reflect our values and are commensurate with a large publicly listed company, including high standards of health and safety and equal opportunities;
- BT operates all employee share plans in many countries. These are open to all employees where offered; and
- BT offers a range of employee benefits many of which are available to everyone.

Recruitment

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

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

The maximum level of variable pay (excluding buyouts for which see below) which may be awarded in respect of a recruitment event (internal or external), will not exceed 740% of base salary, representing the current maximum award under the annual bonus and ISP.

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

In making buying-out awards, the committee may use the relevant provision in the Financial Conduct Authority Listing Rules.

This allows for the granting of awards specifically to facilitate, in unusual circumstances, the recruitment of an executive director, without seeking prior shareholder approval. In doing so, the committee will comply with the relevant provisions in force at the date of this report.

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

In the event of the appointment of a new non-executive director, remuneration arrangements will be in line with those detailed on page 135.

Payment for loss of office

In a departure event, the committee will typically consider:

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

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

In an exit situation, the committee will consider: the individual circumstances; any mitigating factors that might be relevant; the appropriate statutory and contractual position and the requirements of the business for speed of change.

The default position is that an unvested ISP or DBP award or entitlement lapses on cessation of employment, unless the committee applies discretion to preserve some or all of the awards.

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

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

These include:

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

In some cases, the treatment is formally prescribed under the rules of the relevant plan so that where there are 'good leaver' circumstances awards, which would otherwise lapse by default, vest either on the normal vesting date or on cessation of employment. These circumstances include death, injury, ill-health, disability, redundancy or sale of the company or business. If the director dies or leaves due to ill health, injury or disability, ISP awards which have less than 12 months of the performance period remaining or DBP awards which have less than 12 months of the deferred period to run, vest automatically on leaving. In other leaver circumstances the committee has discretion to determine whether, when, and to what extent, awards vest. Where a director leaves where some of his shares acquired under an ISP award are subject to a holding period, that holding period will continue to apply unless the committee determines otherwise.

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

All-employee plans – leavers

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

ISP/DBP – change of control

In the event of a takeover or scheme of arrangement involving the company, ISP and DBP awards will vest, at a minimum, to the extent that any applicable performance measures have been satisfied at the time (subject to the committee's discretion to determine the appropriate level of vesting, having regard to such relevant factors as it decides to take into account). If the acquiring company offers to exchange awards over BT shares for awards over its shares (or shares in another company), awards will normally be exchanged and continue under the rules of the relevant plan. If within 12 months of a change of control, a participant's employment is terminated by his employer other than for misconduct or performance or he or she resigned as a result of a reduction of his or her duties or responsibilities constituting a material breach of the individual's contract, the participant is entitled to receive an amount equal to the difference between the value he or she received on the change of control he would have received if the relevant performance condition had been met in full.

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

Employment conditions elsewhere in the group

The committee considers the pay and conditions of employees throughout the company when determining the remuneration arrangements for executive directors although no direct comparison metrics are applied.

In particular, the committee considers the relationship between general changes to UK employees' remuneration and executive director reward.

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 in general. The committee also receives updates from the group HR director.

Provision	Policy
Notice period	– 12 months' notice by the company, six months' notice by the executive director or chairman (there is no fixed expiry date).
Termination payment	– In lieu of giving an executive director or the chairman 12 months' notice, BT may terminate the director's contract and make a payment in lieu of notice to which the director was entitled if he or she had received salary and the value of contractual benefits for the period. – In respect of the executive directors, the payments in lieu will be payable in equal monthly instalments until the date on which the notice period would have expired or (if earlier) the date on which the director secures alternate employment with the same or higher basic salary or fee. In the event that the director secures alternate employment at a basic salary of £30,000 or higher, but lower than their salary, payment in lieu will be reduced by the amount of the new lower salary received. The Board retains the right to lower the payment in lieu of the directors new employment if it considers the new employment terms of the director are not appropriately balanced between basic salary and other elements, and may cease making payments entirely where the Board is not satisfied the director is making reasonable efforts to secure alternative employment. – In respect of the chairman, the payment in lieu will be payable in equal monthly instalments until the earlier of 12 months from the date of termination or the date the chairman secures alternate full-time employment.
Remuneration and benefits	– Participation in the incentive plans, ISP, DBP and annual bonus, saveshare and directshare, is non- contractual. The chairman does not participate in the ISP, DBP or any annual bonus. – Other benefits include pension (including life cover), dental cover, company car, fuel or driver, private health care (including spouse and children under age of 18 or 21 if in full time education), telecommunication facilities, home security and professional subscriptions. The chairman does not receive pension benefits but is entitled to all other benefits. – The chairman receives an all-inclusive fee for the role.

Executive director and chairman service contracts

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

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

Where appropriate, BT may also meet a director's reasonable legal expenses in connection with either his or her appointment or termination of his or her appointment.

There are no other service agreements, letters of appointment or material contracts, existing or proposed, between the company and any of the executive directorIllustration of executive director pay scenarios

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

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

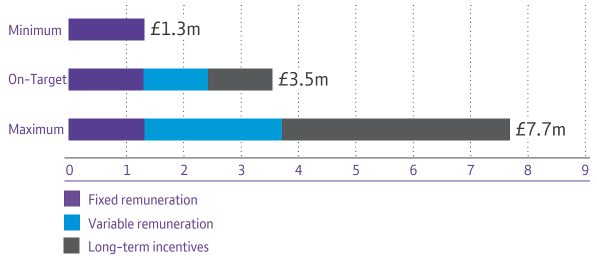
The minimum reflects base salary, pension and benefits only which are not performance related.

	Performance	Assumptions
Fixed pay	All scenarios	Consists of total fixed pay – base salary, benefits and pension: – Base salary – salary effective as at June 2017 – Benefits – amount received by each director in 2016/17 – Pension – cash supplement in lieu of pension provision for 2016/17
Variable pay	Minimum	– No payout under the annual bonus – No vesting under the ISP
	On-target	– On target payout under the annual bonus – 25% of maximum vesting under the ISP
	Maximum	– 100% of the maximum payout under the annual bonus – 100% of maximum vesting under the ISP

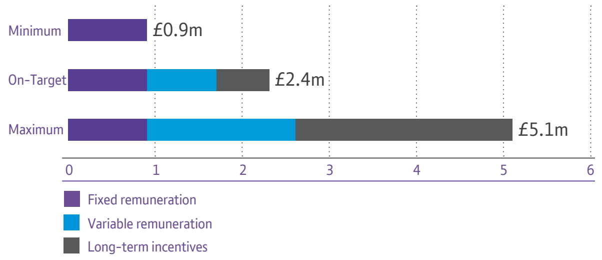
For the purposes of the scenarios chart for the group finance director, we have increased the amount received in 2016/17 on a pro-rata basis to reflect a full financial year.
The chief executive has a target bonus of 120% of salary, with a maximum bonus of 240% of salary. The group finance director has a target bonus of 120% of salary, with a maximum bonus of 180% of salary.
For these purposes, we have assumed a usual maximum ISP award of 400% of base salary for the chief executive and 350% of base salary for the group finance director. The absolute maximum ISP award under our remuneration policy is 500% of base salary

ISP awards have been shown at face value, with no share price growth or discount rate assumptions. All-employee share plans (saveshare and directshare) have been excluded, as have any legacy awards held by executive directors.

Chief executive – performance scenario chart



Group finance director – performance scenario chart



Fixed pay is calculated as follows:

	Salary £000	Benefits £000	Pension £000	Total fixed pay
Chief executive	997	54	298	1,349
Group finance director	700	24	210	934

Other Remuneration Policies

Malus and clawback

Under the terms of the DBP and ISP, if following the grant of an award, facts subsequently become known to the committee which would justify a reduction in the award, the committee may reduce the number of shares under award to take account of this, including to nil. In order to retain flexibility, the events under which this may apply are not formally stipulated in the rules. However, for illustration, such events may include, for example, mis-statement of the financial accounts, fraud or material failure of risk management.

Clawback provisions are also in place for the cash part of the annual bonus and ISP awards granted from June 2015 onwards. Under the annual bonus, clawback will normally 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. The circumstances in which the committee may consider it appropriate to apply clawback include, but are not limited to i) the behaviour of the participant which fails to reflect the company's governance and business values; ii) material adverse change in the financial performance of the company or any division in which the participant works and/or worked; iii) a material misstatement of the company's audited financial accounts (other than as a result of a change in accounting practices); iv) misconduct of a participant which results in or is likely to result in reputational damage to the company; v) a material failure in risk management; vi) negligence or gross misconduct of a participant; and/or vii) fraud effected by or with knowledge of a participant.

Other elements of remuneration are not subject to recovery arrangements.

Consideration of shareholder views

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

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

Non-executive director fees

Element/purpose and link to strategy	Operation	Opportunity
Purpose Core element of remuneration, paid for fulfilling the relevant role	– NEDs receive a basic fee, paid monthly in respect of their board duties. – Further fees may be paid for chairmanship or membership of Board committees or to the senior independent director. – Additional fees of up to £6,000 may also be payable to NEDs travelling regularly from overseas on an intercontinental basis to Board and committee meetings. – NEDs are not eligible for annual bonus, share incentives, pensions or other benefits. – Expenses incurred in the performance of non-executive duties for the company may be reimbursed (including any relevant tax) or paid directly by the company, as appropriate.	– Current fee levels can be found in the Annual Report on Remuneration on page 135. – Fees are set at a level which is considered appropriate to attract and retain NEDs of the necessary calibre. – Fee levels are normally set by reference to the level of fees paid to NEDs serving on boards of similarly-sized, UK-listed companies, taking into account the size, responsibility and time commitment required of the role. – The company's Articles of Association provide the maximum fee level payable. The maximum is based on NED fees benchmarked as at 1 April 1999 with increases linked to the Retail Price Index.