

Report on Directors' Remuneration



Rt Hon Patricia Hewitt

Review of the year

The Committee concluded the strategic review of remuneration policy begun in 2011, which was designed to ensure that our approach to remuneration remained fit for purpose for the period ahead. As a result of that review, we made a number of changes that were reported to investors in the 2011 Directors' Remuneration Report and approved with a vote of 94.7% at the 2011 AGM. In particular, reflecting the group's long-term strategy, we decided that underlying revenue growth (excluding transit) should form 20% of the performance target for the Incentive Share Plan (ISP). We also increased the element of the annual bonus linked to personal and role-specific objectives, again reflecting the company's long-term strategy.

The changes to the ISP were applied to awards made in June 2011; changes to the annual bonus took effect for the year ended 31 March 2012. We are not proposing further significant changes to the remuneration policy and structure in 2013.

Outcomes for the year

The group has delivered good results for the year, continuing the improvement in financial performance over the past three years and reflecting the executive team's commitment to deliver value for our shareholders.

For the year ending 31 March 2009 adjusted free cash flow was £772m. In 2012, adjusted free cash flow was £2.5bn. From 31 March 2009 to 30 March 2012, the BT share price increased from 78p to 226p, with a total shareholder return (TSR) of 224%. The outcomes for adjusted EPS, adjusted cash flow and customer service improvement key performance indicators are set out on page 4. As a result, shares awarded to executive directors under the 2009 ISP will vest in full for

the first time, clearly demonstrating the link between pay and performance (see page 80). The Committee was pleased to see that around 20,000 employees who have participated in the 2009 three-year Sharesave all-employee share option plan also stand to benefit directly from this performance.

Performance over the last year has delivered a TSR of 27%, placing BT second against its comparator group of companies (see page 80). Demanding targets for cash generation were exceeded, adjusted EPS grew by 13%, this was around target performance (demonstrating the degree of challenge posed by the Committee in setting targets) whilst customer service also continued to improve. As a result, the Chief Executive was awarded a bonus of 116% of target (73% of the maximum opportunity), compared with 126% of target (79% of the maximum opportunity) for the previous year. Half of the bonus will be paid in cash, with the remaining half deferred into shares receivable in three years' time, subject to continued employment as well as a clawback condition.

The table below sets out the summary of remuneration received by and expected to be granted to executive directors in respect of their service in 2012.

Looking ahead

Despite the performance achieved the executive directors, and those senior executives reporting directly to the Chief Executive, have requested that they not be considered for any salary increase, in 2013.

The Committee pays particular attention to the pay and conditions of all our employees. As we reported last year, salary increases for direct reports to the Chief Executive (including executive directors) were consistent with salary increases for employees over the same period.

Over the next year, while executive directors' salaries remain unchanged, UK team members will benefit from an average 3% increase (the third year of a three-year pay deal) together with a bonus of £250 (equivalent to nearly 1% of average pay). The salary for the Chief Executive and that of UK team members has been closely linked as set out below.

| | 2010 | 2011 | 2012 | 2013 |
|-----------------|-----------------|--------------------|-------|------|
| Chief Executive | 0% | 5.88% ^a | 2.78% | 0% |
| UK team members | 0% ^b | 3% | 3% | 3% |

^a The Chief Executive donated the difference between 5.88% and 3% to charity (the BT Benevolent Fund).

^b Team members in the UK were awarded a £400 non-consolidated lump sum award.

We continue to consult with major investors and their representative bodies, including the Association of British Insurers (ABI), and National Association of Pension Funds (NAPF) and have participated actively in the consultations launched by the Department for Business, Innovation and Skills (BIS). We welcome proposals for increased transparency and continue to take best practice guidelines into account in preparing this report. Although BIS has not yet finalised its proposals, we believe that the approach taken by BT in recent years will leave us well placed to address any changes.

Rt Hon Patricia Hewitt
Committee Chair

9 May 2012

Summary remuneration of executive directors in 2012

| | Ian Livingston | Tony Chanmugam | Gavin Patterson |
|---------------------------------------|---|------------------|------------------|
| Base salary | £925,000 | £535,000 | £570,000 |
| Annual bonus | | | |
| cash | £1,344,000 | £605,000 | £613,000 |
| deferred shares ^a | 626,715 shares | 211,475 shares | 214,348 shares |
| Incentive shares to vest ^b | 2,222,929 shares | 1,035,186 shares | 1,089,668 shares |
| Pension ^c | £220,000 | £159,000 | £119,000 |
| Other benefits | Company car, fuel or driver, personal telecommunications facilities, life and medical cover, financial planning and home security | | |

^a Award of deferred shares expected to be granted in June 2012. An estimate of the number of shares to be granted has been calculated using the closing market share price of 214.5p on 8 May 2012.

^b ISP awards of shares granted in June 2009, covering the performance period 2010-2012, that will vest in May 2012.

^c Pension allowance paid in cash.

This part of the Report is a summary of key elements of our directors' remuneration. Pages 84 to 88 are subject to audit.

The Remuneration Committee

This section describes the membership and role of the Committee.

Who we are

Patricia Hewitt chairs the *Remuneration Committee*, made up of independent non-executive directors, which met five times during the year. Committee attendance is set out below. Patricia Hewitt and Eric Daniels were members throughout 2012.

Committee members

| Member | Meetings | |
|--------------------------------|--------------------|----------|
| | Eligible to attend | Attended |
| Rt Hon Patricia Hewitt (Chair) | 5 | 5 |
| Tony Ball ^a | 3 | 3 |
| Eric Daniels | 5 | 5 |
| Nick Rose ^b | 2 | 2 |
| Carl Symon ^c | 3 | 3 |

^a Tony Ball was appointed to the Committee on 5 May 2011.

^b Nick Rose was appointed to the Committee on 14 December 2011.

^c Carl Symon retired from the Committee on 13 January 2012.

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.

Our role

The *Remuneration Committee* agrees the framework for the remuneration of the Chairman, the executive directors and certain senior executives. This includes the policy for all cash remuneration, executive share plans, service contracts and termination arrangements. The Committee approves salaries, bonuses and share awards for executive directors and certain senior executives. The Committee approves new executive share plans and any changes and makes recommendations to the Board which require shareholder approval and oversees their operation. The Committee also determines the basis on which awards are granted under the executive share plans to executives reporting to the senior management team.

The Committee's terms of reference are available on our website at www.bt.com/committees



Advisors

The Committee received advice during the year from independent remuneration consultants Towers Watson and from Deloitte LLP. Deloitte LLP replaced Towers Watson during the year following a competitive tender exercise conducted by the Committee. The independent remuneration consultants attended Committee meetings when major remuneration issues were discussed. Deloitte LLP also provided the company with advice on corporate and indirect taxes, regulatory and risk issues, pensions and additional consultancy services. Towers Watson also provided the company with consultancy services on general human

resources (HR) and pension issues. The Committee regularly consults the Chief Executive, the Group People Director, the HR Director, Reward and Employee Relations, and the Company Secretary.

Remuneration principles

Our policy remains to maintain a competitive remuneration package that will attract, retain and motivate a high quality top team, avoid excessive risk taking and align their interests with those of shareholders.

We believe in pay for performance against challenging targets. We aim to set base salaries below the median for our comparator group, while setting 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 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.

The Committee believes that the free cash flow and revenue performance measures set are challenging, and the financial performance necessary to achieve awards towards the upper end of the range for each target, is stretching. Targets for threshold performance are established at above market consensus at the time they are set.

In setting directors' remuneration, the Committee takes account of the remuneration of other companies of similar size and complexity, using a comparator group defined with the assistance of our independent remuneration consultants. The Committee also takes into account the pay and employment conditions of all our employees.

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 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 which are open to all employees and executive directors alike
- BT offers benefits which are available to everyone.

The Committee continues to keep under review the relationship of risk to remuneration. The Chair of the *Audit & Risk Committee* is a member of the *Remuneration Committee* and the Chair of the *Remuneration Committee* is also a member of the *Audit & Risk Committee*. The largest single driver of on-target remuneration remains adjusted free cash flow (30% of the Chief Executive's variable pay at target), reflecting the importance of free cash flow to invest in the business, reduce net debt, support the pension fund and pay progressive dividends.

The Committee is also satisfied that the incentive structure for senior executives does not raise environmental, social or governance (ESG) risks by inadvertently motivating irresponsible behaviour. Part of the annual bonus depends upon an individual assessment of each senior executive's personal contribution to ESG measures, including results of the regular employee surveys and health and safety outcomes.

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.

Remuneration in 2012

Remuneration for 2012 is set out below.

Salaries

Salaries are reviewed annually. A salary increase was received by executive directors in June 2011. The executive directors have requested that the Committee not consider them for any salary increase for the year 2013 and accordingly executive director salaries will remain unchanged.

Annual bonus

Executive directors are eligible for an annual bonus based on corporate performance targets, ESG measures and individual targets. The customer service element of annual bonus is only paid if a minimum EPS threshold is achieved. The annual bonus is paid in two elements, a cash element, and a deferred element paid in shares. The deferred share element is subject to clawback provisions as set out on page 81 and deferred shares must be held for three years before they vest. There are no additional performance conditions on the deferred shares, other than a requirement for continued employment, and there is no matching of deferred shares by the company. The Committee considers that awarding shares on a deferred basis acts as a retention measure and contributes to the alignment of management with the long-term interests of shareholders. Deferred shares awarded to executive directors in 2012 and in previous years are set out on page 85. Annual bonus payments are not pensionable.

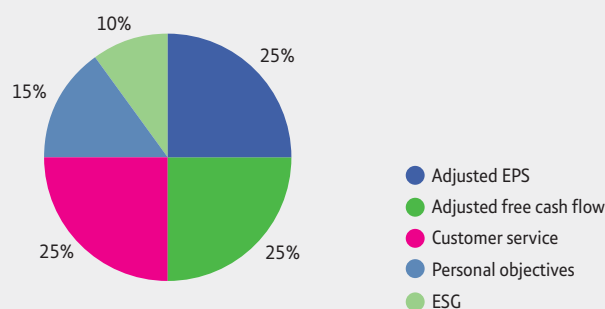
The levels for bonus element are set out below.

Level of bonus for executive directors

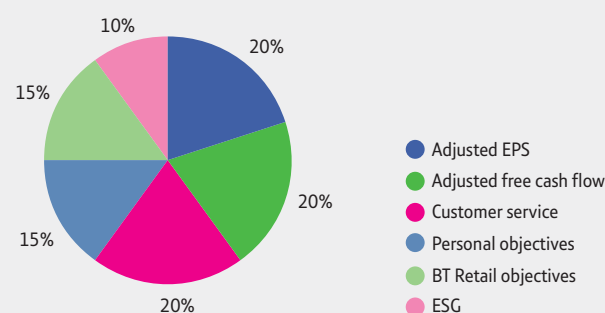
| | Chief Executive | Executive directors |
|--------------------------|---|---|
| Annual cash bonus | target 125% salary maximum 200% salary | target 100% salary maximum 150% salary |
| Deferred bonus in shares | target 125% salary maximum 200% salary | target 75% salary maximum 112.5% salary |
| Total bonus | target 250% salary maximum 400% salary | target 175% salary maximum 262.5% salary |

Annual bonuses in 2012 were assessed by the Committee based on a number of factors. The annual bonus structure for 2012 is set out below:

Chief Executive and Group Finance Director annual bonus structure



CEO BT Retail annual bonus structure



For the Chief Executive and Group Finance Director, the customer service element of bonus was increased from 20% to 25%, and personal objective element increased from 10% to 15%. Both adjusted EPS and adjusted free cash flow were reduced from 30% to 25% of bonus. Similarly the CEO of BT Retail also had the proportion of bonus relating to adjusted EPS and adjusted free cash flow both reduced from 30% to 20%, with 15% of bonus now subject to BT Retail metrics and the proportion attributable to personal objectives increased from 10% to 15%.

The two financial targets for the annual bonus are two of our key performance indicators and have a direct impact on shareholder value, while customer service and broader objectives are vital to the company's long-term health and growth. We do not publish details of the adjusted EPS and adjusted free cash flow targets in advance, since these are market sensitive and commercially confidential. The Committee is, however, satisfied that the measures are appropriate and that the targets are stretching.

In calculating adjusted EPS specific items are excluded as set out on page 28.

The measure for free cash flow within the annual bonus is adjusted free cash flow. Adjusted free cash flow represents the cash generated from operations after capital expenditure and financing costs but before specific items and pension deficit payments. In 2011 the measure was reported free cash flow. The use of adjusted free cash flow more closely

aligns remuneration metrics with results delivered by the group's trading activities and key measures of performance in our reported results.

Customer service is measured by rigorous and challenging 'right first time' and 'customer issue reduction' metrics across each line of business. Although we will keep these measures under review, they are directly linked to cost reductions as well as to customer satisfaction and are measured objectively.

The ESG measure is aligned to our strategy and is assessed by the Chief Executive for each senior executive, and by the Chairman for the Chief Executive himself. Assessment is based upon BT's regular employee survey as well as health and safety and sustainability measures.

The Committee are satisfied that the targets set out are appropriate and stretching, for example adjusted EPS growth of 13% was around target performance.

Ian Livingston's cash bonus represented 145.3% of his current salary (2011: 157.25%), Tony Chanmugam's cash bonus represented 113.1% of his current salary (2011: 118.5%) and Gavin Patterson's cash bonus represented 107.6% of his current salary (2011: 123%).

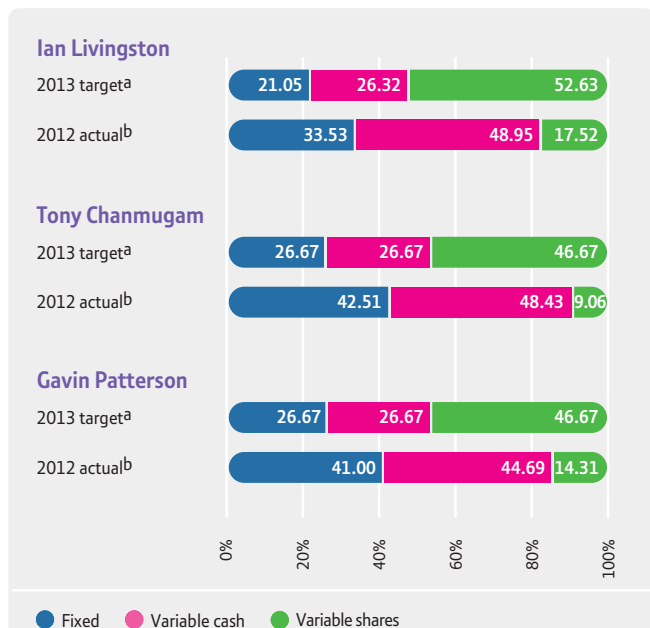
The cash element of the annual bonus is set out in the table on page 84. The deferred share element of the bonus is set out on page 85.

Incentive Share Plan

The long-term share element of executive remuneration is the Incentive Share Plan (ISP). Details of the ISP arrangements are set out below. The Chief Executive received an award of incentive shares with a value of 2.5x salary (2011: 2.5x salary). Other executive directors received awards with a value of 2x salary (2011: 2x salary). The awards of incentive shares under the ISP during the year, incentive shares awarded in prior years, and the vesting of incentive shares awarded in June 2009 under the ISP are set out on page 86.

Proportion of fixed and variable remuneration

The composition of each executive director's performance-related remuneration, excluding pension, is as follows:

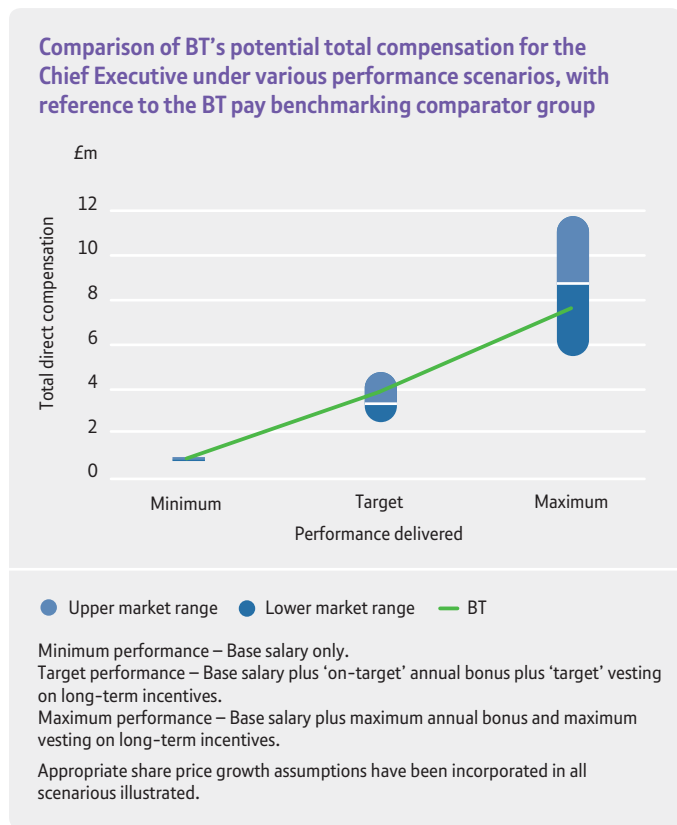


^a Target remuneration comprises current base salary, on-target annual cash bonus and the expected value of awards under the deferred bonus and incentive share plans.
^b Actual remuneration comprises base salary, actual cash bonus and the value received from deferred shares and incentive shares (awards granted in 2008 and vested in 2011) during the financial year.

Remuneration in 2013

The Committee concluded a review of remuneration strategy during the year. The measure for free cash flow will be changed to a normalised basis consistent with our financial outlook to remove the impact of the cash tax benefit relating to pension deficit payments. This change will apply to both the 2013 annual bonus and ISP 2012 awards. The Committee is not proposing any other changes to remuneration policy and structure for 2013.

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 remains closely aligned with shareholders' interests.



The table below sets out the proposed ISP 2012 awards that are expected to be made in June 2012. The performance criteria for the awards is set out below.

| Director | ISP Award ^a |
|-----------------|------------------------|
| Ian Livingston | 1,078,088 shares |
| Tony Chanmugam | 498,834 shares |
| Gavin Patterson | 531,469 shares |

^a ISP grant to be awarded. An estimate of the number of shares awarded calculated using the closing market share price on 8 May 2012.

Long-term share-based incentives

Incentive shares

BT operates a long-term ISP (incentive shares) based on performance over three years. Shares only vest if the participant is still employed by BT and challenging performance measures have been met. For awards granted in 2009 and 2010, 50% of awards are based on relative TSR, with the other 50% based on a three-year cumulative adjusted free cash flow measure. The use of an adjusted free cash flow measure for the ISP as well as for the annual bonus reflects the importance of cash generation over both the short and medium-term. For awards granted in June 2011, a new measure for underlying revenue growth (excluding transit revenue) was added to the plan, to reflect changing strategic priorities for the group. The 2011 awards are therefore based 40% on relative TSR, 40% on cumulative adjusted free cash flow, and 20% on underlying revenue growth (excluding transit revenue) over a three-year performance period. The performance measures for the awards to be granted in June 2012 will be the same as for those granted in 2011 (other than the use of a normalised free cash flow measure to align with our outlook) with targets calibrated for the three-year performance period from 2012. The ISP 2012 awards will be made at the same level as the 2011 awards.

The Committee believes that the free cash flow and revenue performance measures are challenging, and the financial performance necessary to achieve awards towards the upper end of the range for each target, is stretching. Targets for threshold performance have been established at above market consensus at the time set.

When we set the performance measures for the ISP 2009 awards, the prior year reported cash flow was £737m. We established a three-year cumulative threshold of £4bn – to be achieved before any shares would vest – with a further £1bn performance range up to £5bn, at which point all of the shares under the cash flow element of the award would vest. The upper part of the range was considered to be extremely stretching. We met the measure in full and achieved upper quartile TSR performance (4th out of 25 companies) during the three-year period. As a result the ISP 2009 awards vest in full.

TSR for these purposes was calculated by JPMorgan Cazenove. TSR links the reward given to directors with the performance of BT against other major companies. TSR is measured against a comparator group which contains European telecoms companies and companies which are either similar in size or market capitalisation and/or have a similar business mix and spread to BT.

The TSR comparator group for awards to be granted in June 2012 comprises the following companies:

| | | |
|----------------------------|------------------|-----------------|
| Accenture | France Telecom | Telecom Italia |
| AT & T | Hellenic Telecom | Telefónica |
| Belgacom | IBM | Telekom Austria |
| BSkyB | National Grid | Telenor |
| BT Group | Portugal Telecom | TeliaSonera |
| Cable & Wireless Worldwide | Royal KPN | Verizon |
| Cap Gemini | Swisscom | Virgin Media |
| Centrica | TalkTalk | Vodafone |
| Deutsche Telekom | | |

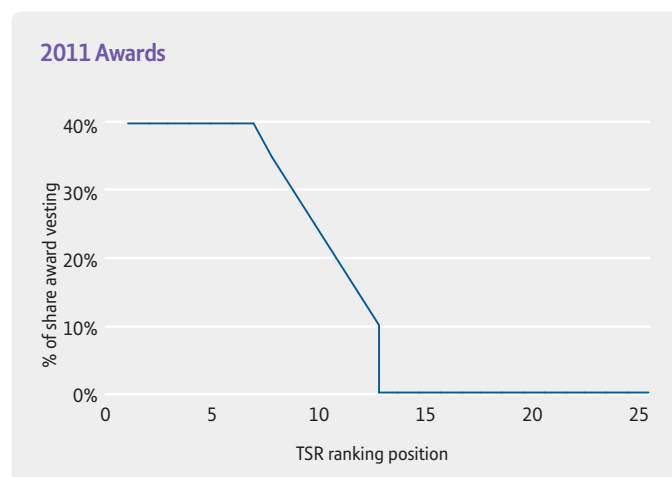
The TSR comparator group is the same for awards granted in June 2011.

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 prices 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 end values indicates growth in TSR.

TSR vesting schedule for awards of incentive shares granted in 2011

For awards made in June 2011, 40% is based on relative TSR, 40% on a three-year cumulative adjusted free cash flow measure, and 20% on underlying revenue growth (excluding transit revenue) over three years.

The following graph shows the potential vesting of awards granted in 2011 based on the TSR element.



Historic vesting for executive share plans

Performance conditions for the incentive shares are challenging as demonstrated by the table below. Relative TSR has been the measure for many years. This measure has been retained under the current remuneration policy, although a free cash flow measure was added for awards granted in 2009 and 2010, and in 2011 an additional underlying revenue growth (excluding transit) measure was added.

The following table shows the vesting levels of BT's incentive share awards granted to executive directors since 2005.

Historic vesting of ISP

| Year of grant | Performance period | Incentive shares percentage vesting |
|------------------------|--------------------|-------------------------------------|
| 2005 | 2005-2008 | 25% |
| 2006 | 2006-2009 | 0% |
| 2007 | 2007-2010 | 0% |
| 2008 | 2008-2011 | 0% |
| 2009 | 2009-2012 | 100% |
| Average annual vesting | | 25% |

Retention shares

Awards of retention shares are used by exception only and principally as a recruitment or retention tool. As a result, shares currently under award are not generally subject to a corporate performance target. The length of the retention period before awards vest is flexible, although this would normally be three years unless the Committee agrees otherwise. The shares are transferred at the end of the specified period if the individual is still employed by BT and any performance conditions are met. No awards of retention shares were made to executive directors, but two senior executives were granted an award in 2012.

Share options

No share options have been awarded under the Global Share Option Plan (GSOP) since 2004 and there is no intention to award options in 2013. Details of share options held by directors at the end of the financial year are shown in the table on page 87.

Clawback

The rules of the executive share plans provide for a clawback of unvested awards in circumstances where the Committee becomes aware of facts which would, in its discretion, justify such reduction.

Other share plans

The Chairman and executive directors may participate in BT's all-employee share plans, the Employee Sharesave Scheme, Employee Share Investment Plan (ESIP) and Allshare International, on the same basis as other employees.

Dilution

Treasury shares are generally used to satisfy the exercise of share options and the vesting of share awards for the executive and all-employee share plans. At the end of 2012, treasury shares equivalent to 9.2% of the issued share capital would be required for these purposes. It is estimated that treasury shares equivalent to approximately 2.2% of the issued share capital will be required for all the employee share plans in 2013.

Other matters

Service agreements

It is group policy for the Chairman and executive directors to have service agreements, approved by the Committee, providing for one year's notice by the company and six months' notice by the director. All of the service agreements contain provisions dealing with the removal of a director for poor performance, including in the event of early termination of the contract by BT. The contracts of the Chairman, Ian Livingston, Tony Chanmugam and Gavin Patterson entitle them on termination of their contract by BT to payment of salary and the value of benefits (pension benefits (including life cover), health cover, dental cover and car) until the earlier of 12 months from notice of termination or the director obtaining full-time employment. No director will receive a bonus or other payments on a change of control. The Committee reviewed during the year arrangements for senior executives leaving under 'good leaver' circumstances and the role of the Committee in the exercise of discretion in those circumstances.

Non-executive directors' letters of appointment

Non-executive directors have letters of appointment. They are appointed for an initial period of three years. During that period, either

party can give the other at least three months' notice of termination and the appointment automatically terminates in the event of a director not being re-elected by shareholders. 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 non-executive directors are set out on page 82. The letters of appointment are open for inspection by the public at the registered office of the company.

Non-executive directors' remuneration

Seven of the directors on the Board are non-executive directors who, in accordance with BT's Articles of Association, cannot individually vote on their own remuneration. Non-executive remuneration is reviewed by the Chairman and the Chief Executive, and discussed and agreed by the Board. Non-executive directors may attend the Board discussion but may not participate in it.

In line with the approach taken by the executive directors, no increase in fee is proposed for any non-executive director in 2013.

The basic fee for non-executive directors is £62,000 per year (2011: £62,000). There are additional fees for membership and chairing a Board Committee, details of which are given in the table below:

| Committee | Member's fee | Additional Chairman's fee |
|-------------------------|--------------|---------------------------|
| Audit & Risk | £15,000 | £15,000 |
| Remuneration | £10,000 | £10,000 |
| Nominating & Governance | £7,500 | £5,000 |
| Other Board Committees | £5,000 | £5,000 |

Patricia Hewitt, as Senior Independent Director, chair of the *Remuneration Committee*, chair of the *BT Pensions Committee* and a member of the *Audit & Risk Committee*, receives total fees of £159,500 per year. Phil Hodgkinson receives an additional annual fee of £72,500 as chairman of the EAB (a Board Committee).

An additional fee of £2,000 per trip is paid to those non-executive directors travelling regularly from overseas on an inter-continental basis to Board and Board Committee meetings.

To align further the interests of the non-executive directors with those of shareholders, the company's policy is to encourage these directors to purchase, on a voluntary basis, BT shares to the value of £5,000 each year. The directors are asked to hold these shares until they retire from the Board. This policy is not mandatory. Current shareholdings are shown on page 83.

No element of non-executive 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.

Committee evaluation

The Committee reviews its performance with Board members and other participants. We continued to strengthen the Committee's performance, for example by providing time before each meeting for private discussions between members and its advisors.

Directors' service agreements and letters of appointment

The dates on which directors' initial service agreements/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 | |
| I Livingston | 1 June 2008 | The contract is terminable by the company on 12 months' notice and by the director on six months' notice. |
| T Chanmugam | 1 December 2008 | |
| G Patterson | 1 June 2008 | |
| Non-executive directors | | |
| P Hodgkinson | 1 February 2006 | Letter of appointment was for an initial period of three years. The appointment was extended for three years in February 2012. |
| J E Daniels P Hewitt | 1 April 2008 24 March 2008 | Letters of appointment were for an initial period of three years. The appointments were extended for three years in March 2011. |
| T Ball | 16 July 2009 | Letter of appointment is for an initial period of three years. |
| N Rose J Whitbread | 1 January 2011 19 January 2011 | Letters of appointment are for an initial period of three years. |
| K Richardson | 1 November 2011 | Letter of appointment is for an initial period of three years. |

There are no other service agreements, letters of appointment or material contracts, existing or proposed, between the company and the directors. There are no arrangements or understandings between any director or executive officer and any other person pursuant to which any director or executive officer was selected to serve. There are no family relationships between the directors. The appointment of non-executive directors is terminable by the Company or the director on three months' notice with automatic termination in the event of not being re-elected by shareholders.

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. Ian Livingston receives an annual fee of £25,000 as a non-executive director of Celtic and an additional annual fee of £5,000 for chairing the audit committee. 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.

Executive 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. The directors are encouraged to build up a 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 a purchase in the market. The Chief Executive is required to build up a shareholding of 2x salary and the remaining executive directors 1.5x salary.

Current shareholdings are set out below.

Directors' interests

The interests of directors holding office at the end of the year, and their families, in the company's shares at 31 March 2012 and 1 April 2011, or at date of appointment if later, are shown below:

| Beneficial holdings | Number of shares | |
|---------------------------|------------------|------------------|
| | 2012 | 2011 |
| Sir Michael Rake | 116,430 | 109,710 |
| I Livingston ^a | 1,270,335 | 1,155,545 |
| T Chanmugam ^a | 251,149 | 224,416 |
| G Patterson ^a | 486,986 | 439,473 |
| T Ball | 15,000 | 15,000 |
| J E Daniels | 12,647 | 12,647 |
| P Hewitt | 18,234 | 12,391 |
| P Hodgkinson | 22,857 | 16,683 |
| N Rose | 50,000 | 50,000 |
| K Richardson ^b | – | – |
| J Whitbread | 2,940 | 640 |
| Total | 2,246,578 | 2,036,505 |

^a Includes free shares awarded under the ESIP.

^b Karen Richardson joined the Board on 1 November 2011.

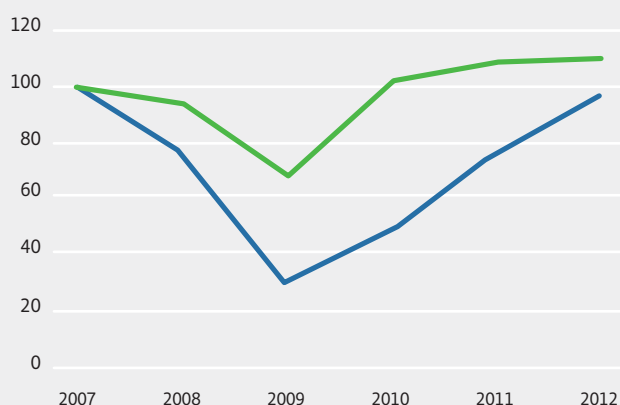
During the period from 1 April 2012 to 9 May 2012, there were no movements in directors' beneficial holdings.

The directors, as a group, beneficially own less than 1% of the company's shares.

Total Shareholder Return

This graph illustrates, as required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the performance of BT Group plc measured by TSR relative to a broad equity market index over the past five years. We consider the FTSE100 to be the most appropriate index against which to measure performance for these purposes, as BT has been a constituent of the FTSE100 throughout the five-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



31 March 2007 = 100

Source: Datastream

The graph shows the relative TSR performance of BT and the FTSE100 over the past five years

— BT
— FTSE100

Remuneration review

The following sets out the full review of directors emoluments, including bonus and deferred bonus, and long-term incentive plans and pension arrangements. **The remainder of the Report on Directors' Remuneration is subject to audit.**

Directors' emoluments

Directors' emoluments for the financial year 2012 were as follows:

| | Basic salary and fees £000 | Pension allowance net of pension contributions ^a £000 | Total salary and fees £000 | Annual cash bonus ^b £000 | Expense allowance £000 | Other benefits excluding pension £000 | Total 2012 £000 | Total 2011 £000 |
|-------------------------------|----------------------------------|--|----------------------------------|---|------------------------------|--|--------------------|--------------------|
| Sir Michael Rake ^c | 650 | – | 650 | – | – | 22 | 672 | 638 |
| I Livingston ^c | 921 | 220 | 1,141 | 1,344 | – | 20 | 2,505 | 2,359 |
| T Chanmugam ^{c,d} | 531 | 159 | 690 | 605 | 19 | 15 | 1,329 | 1,290 |
| G Patterson ^{c,d} | 563 | 119 | 682 | 613 | 19 | 21 | 1,335 | 1,300 |
| T Ball | 79 | – | 79 | – | – | – | 79 | 73 |
| C Brendish ^e | 37 | – | 37 | – | – | – | 37 | 82 |
| J E Daniels | 80 | – | 80 | – | – | – | 80 | 76 |
| P Hewitt | 160 | – | 160 | – | – | – | 160 | 152 |
| P Hodgkinson | 121 | – | 121 | – | – | – | 121 | 102 |
| K Richardson ^{f,g} | 26 | – | 26 | – | – | 8 | 34 | – |
| N Rose | 82 | – | 82 | – | – | – | 82 | 16 |
| C G Symon ^{g,h} | 127 | – | 127 | – | – | 14 | 141 | 168 |
| J Whitbread | 71 | – | 71 | – | – | – | 71 | 14 |
| Total | 3,448 | 498 | 3,946 | 2,562 | 38 | 100 | 6,646 | 6,270 |

^a Pension allowance paid in cash for 2012 – see 'Pensions' on page 87.

^b Annual cash bonus. Deferred element of bonus is set out on page 85.

^c Other benefits include some or all of the following: company car, fuel or driver, personal telecommunications facilities and home security, medical and dental cover for the directors and immediate family, special life cover, professional subscriptions.

^d Expense allowance in the above table includes a monthly cash allowance in lieu of a company car or part of such allowance which has not been used for a company car.

^e Clay Brendish retired as a director on 31 August 2011.

^f Karen Richardson was appointed as a director on 1 November 2011.

^g Includes an additional fee for regular travel to Board and Board Committee meetings from overseas on an intercontinental basis.

^h Carl Symon retired as a director on 13 January 2012.

Deferred Bonus Plan (DBP) awards at 31 March 2012

As set out on page 78, a portion of executive directors' annual bonus is paid in the form of deferred shares. The following table sets out deferred share awards that have been granted to directors during the year and previous awards that have vested. 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 Group.

| | 1 April 2011 | Awarded ^a | Dividends re-invested | Vested | Lapsed | Total number of award shares 31 March 2012 | Vesting date | Price at grant | Market price at vesting | Monetary value of vested award £000 |
|--------------|--------------|----------------------|-----------------------|---------|--------|--|--------------|----------------|-------------------------|-------------------------------------|
| I Livingston | 237,410 | – | – | 237,410 | – | – | 1/8/2011 | 203.00p | 202.67p | £481 |
| | 287,008 | – | 12,342 | – | – | 299,350 | 1/8/2012 | 128.41p | – | – |
| | 939,629 | – | 40,408 | – | – | 980,037 | 1/8/2013 | 134.26p | – | – |
| | – | 711,777 | 30,609 | – | – | 742,386 | 1/8/2014 | 198.83p | – | – |
| T Chanmugam | 55,816 | – | – | 55,816 | – | – | 1/8/2011 | 203.00p | 202.67p | £113 |
| | 64,365 | – | 2,767 | – | – | 67,132 | 1/8/2012 | 128.41p | – | – |
| | 270,347 | – | 11,625 | – | – | 281,972 | 1/8/2013 | 134.26p | – | – |
| | – | 227,961 | 9,802 | – | – | 237,763 | 1/8/2014 | 198.83p | – | – |
| G Patterson | 96,880 | – | – | 96,880 | – | – | 1/8/2011 | 203.00p | 202.67p | £196 |
| | 101,296 | – | 4,355 | – | – | 105,651 | 1/8/2012 | 128.41p | – | – |
| | 284,576 | – | 12,237 | – | – | 296,813 | 1/8/2013 | 134.26p | – | – |
| | – | 243,577 | 10,474 | – | – | 254,051 | 1/8/2014 | 198.83p | – | – |

^a Awards granted on 27 June 2011 in respect of 2011. 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 2012 will be calculated using the average middle market price of a BT share for the three days prior to grant. It is expected that awards will be granted in June 2012.

Share awards under long-term incentive schemes held at 31 March 2012

Details of the company's shares provisionally awarded to directors, as participants under the ISP are as follows:

| | 1 April 2011 | Awarded | Dividends re-invested | Vested | Lapsed | Total number of award shares 31 March 2012 | Performance period end | Price at grant | Market price at vesting ^a | Monetary value of vested award £000 |
|-----------------------|--------------|-----------|-----------------------|--------|--------|--|------------------------|----------------|--------------------------------------|-------------------------------------|
| I Livingston | | | | | | | | | | |
| ISP 2009 ^a | 2,131,274 | – | 91,655 | – | – | 2,222,929 | 31/3/2012 | 128.41p | 214.5p | £4,768 |
| ISP 2010 ^b | 1,753,042 | – | 75,389 | – | – | 1,828,431 | 31/3/2013 | 134.26p | – | – |
| ISP 2011 ^c | – | 1,163,034 | 50,015 | – | – | 1,213,049 | 31/3/2014 | 198.83p | – | – |
| T Chanmugam | | | | | | | | | | |
| ISP 2009 ^a | 992,504 | – | 42,682 | – | – | 1,035,186 | 31/3/2012 | 128.41p | 214.5p | £2,220 |
| ISP 2010 ^b | 740,172 | – | 31,831 | – | – | 772,003 | 31/3/2013 | 134.26p | – | – |
| ISP 2011 ^c | – | 538,139 | 23,141 | – | – | 561,280 | 31/3/2014 | 198.83p | – | – |
| G Patterson | | | | | | | | | | |
| ISP 2009 ^a | 1,044,740 | – | 44,928 | – | – | 1,089,668 | 31/3/2012 | 128.41p | 214.5p | £2,337 |
| ISP 2010 ^b | 779,129 | – | 33,506 | – | – | 812,635 | 31/3/2013 | 134.26p | – | – |
| ISP 2011 ^c | – | 573,344 | 24,656 | – | – | 598,000 | 31/3/2014 | 198.83p | – | – |

^a Awards granted on 7 August 2009. 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. 50% of each award of shares is linked to TSR compared with a group of 25 companies and 50% is linked to a three-year cumulative free cash flow measure. The market price at vesting is an estimate of the value using the closing market share price on 8 May 2012. The award will vest in full in May 2012.

^b Awards granted on 25 June 2010. 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. 50% of each award of shares is linked to TSR compared with a group of 25 companies and 50% is linked to a three-year cumulative free cash flow measure. The award will vest subject to meeting the two performance conditions on 31 March 2013.

^c Awards granted on 27 June 2011. 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. 40% of each award is linked to TSR compared with a group of 25 companies, 40% is linked to a three-year cumulative free cash flow measure and 20% to a measure of underlying revenue growth (excluding transit) over three years.

Share options held at 31 March 2012

| | 1 April 2011 or date of appointment if later | Number of shares under option | | | 31 March 2012 | Option price per share | Usual date from which exercisable | Usual expiry date |
|------------------|---|-------------------------------|----------|-----------|----------------|---------------------------|---|-------------------------|
| | | Granted | Lapsed | Exercised | | | | |
| Sir Michael Rake | 12,110 ^a | – | – | – | 12,110 | 68p | 1/8/2012 | 1/2/2013 |
| | 1,485 ^b | – | – | – | 1,485 | 104p | 1/8/2016 | 1/2/2017 |
| I Livingston | 12,110 ^a | – | – | – | 12,110 | 68p | 1/8/2012 | 1/2/2013 |
| | 769 ^b | – | – | – | 769 | 104p | 1/8/2016 | 1/2/2017 |
| T Chanmugam | 37,384 ^c | – | – | – | 37,384 | 192p | 24/6/2007 | 24/6/2014 |
| | 12,110 ^a | – | – | – | 12,110 | 68p | 1/8/2012 | 1/2/2013 |
| G Patterson | 98,178 ^c | – | – | – | 98,178 | 192p | 24/6/2007 | 24/6/2014 |
| Total | 174,146 | – | – | – | 174,146 | | | |

All of the above options were granted for nil consideration.

^a Option granted on 7 April 2009 under the Employee Sharesave Scheme, in which all employees of the company are entitled to participate.

^b Option granted on 17 June 2010 under the Employee Sharesave Scheme, in which all employees of the company are entitled to participate.

^c Options granted under the GSOP on 24 June 2004. The exercise of options was subject to a performance measure being met. The performance measure is relative TSR compared with a group of 20 companies from the European Telecom Sector as at 1 April 2004.

The market price of BT shares at 31 March 2012 was 226.4p (2011: 185.6p) and the range during the year was 161p to 232.1p (2011: 109.9p to 191.1p).

Share awards under the Employee Share Investment Plan (ESIP) at 31 March 2012

| | Total number of shares 31 March 2012 |
|--------------|---|
| I Livingston | 363 |
| T Chanmugam | 679 |
| G Patterson | 247 |

During the year no awards of shares were granted under the ESIP.

All UK employees may participate in the ESIP. The awards are not subject to any performance conditions.

Pensions

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 although Tony Chanmugam's pension is based on his final salary. Executive directors who are members of the BTPS also benefit from a death in service lump sum of four times salary.

All new employees are eligible to join the defined contribution BT Retirement Saving Scheme (BTRSS), the successor to the defined contribution BT Retirement Plan (BTRP). The BTRSS is a group personal pension plan. For executive directors the company agrees to pay a fixed percentage of the executive's salary each year which can be put towards the provision of retirement benefits. Executive directors who are not members of the BTPS benefit from a death in service lump sum of four times salary and a dependant's pension of 30% of capped salary.

Pension provision for all executives is based on salary alone – bonuses, other elements of pay and long-term incentives, are excluded.

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

Ian Livingston is not a member of any of the company pension schemes, but the company has agreed to pay an annual amount equal to 30% of his salary towards pension provision. The company paid £50,000 into his personal pension plan, plus a cash payment of £219,999 representing the balance of the pension allowance for 2012. BT also provides him with a death in service lump sum benefit of four times his salary.

Tony Chanmugam is a member of the BTPS but has opted out of future pensionable service accrual. The company pays him an annual allowance equal to 30% of salary towards pension provision. A cash payment of £158,625 was made for him in 2012. BT also provides him with a death in service lump sum benefit of four times his salary.

Gavin Patterson receives an annual allowance equal to 30% of salary towards pension provision. Of this amount, £50,000 was paid as an employer contribution into the BTRSS and the balance of £118,752 was paid as a cash payment for the 2012 financial year. BT also provides him with a death in service lump sum benefit of four times his salary plus a widow's pension of 30% of his capped salary.

The table below shows the increase in the accrued benefits, including those referred to above, to which each director who is a member of the BTPS has become entitled during the year, and the transfer value of the increase in accrued benefits.

Increases in pension benefits at 31 March 2012

| | Accrued pension | | Transfer value of accrued benefits | | Change in transfer value c-d less director's contributions | Additional accrued benefits earned in the year | Transfer value of accrued benefits in e less director's contributions |
|--------------------------|---------------------------|---------------------------|------------------------------------|---------------------------|--|--|---|
| | 2012 £000 ^a | 2011 £000 ^b | 2012 £000 ^c | 2011 £000 ^d | 2012 £000 | 2012 £000 ^e | 2012 £000 ^f |
| T Chanmugam ^g | 202 | 191 | 4,650 | 4,197 | 453 | 4 | 73 |

^{a-d} As required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

^{a-b} The values represent the deferred pension to which he would have been entitled had he left the company on 31 March 2012 and 2011, respectively.

^c Transfer value of the deferred pension in column (a) as at 31 March 2012 calculated on the basis of actuarial advice in accordance with relevant legislation. The transfer value represents a liability of the BTPS rather than any remuneration due to the individual, and cannot be meaningfully aggregated with annual remuneration, as it is not money the individual is entitled to receive.

^d The equivalent transfer value but calculated as at 31 March 2011 on the assumption that the director left the company on that date.

^e The increase in pension built up during the year, net of inflation. The gross amount can be calculated by deducting the amount under column (b) from the amount under column (a).

^f The transfer value of the pension in column (e), less directors' contributions.

^g Tony Chanmugam's contributions in 2012 were £nil (2011: £nil).

Former directors

Sir Peter Bonfield received under pre-existing arrangements, a pension of £423,125 in 2012 (2011: £403,745).

Baroness Jay retired as a non-executive director on 13 January 2008 but continues as a member of the *Committee for Sustainable and Responsible Business* for which she receives an annual fee of £6,500.

Loans

There are no outstanding loans granted by any member of the BT Group to any of the directors, or guarantees provided by any member of the BT Group for their benefit.

Rt Hon Patricia Hewitt
Chair of the Remuneration Committee
9 May 2012