

# Governance

We believe that effective corporate governance is critical to delivering our strategy and creating long-term value for our shareholders. As well as implementing improvements in governance in Italy, Global Services and at group level, we've refreshed our governance framework to support the clear and consistent delegation of authority from our Board to senior levels of the organisation and beyond. This will enable faster, better decision making and help us live up to our values – Personal, Simple, Brilliant, in everything we do.

## Our Board

Our directors' skills and experience, together with their wide range of backgrounds, help them constructively challenge BT's management, set the group's strategy and oversee its performance.

## Our committees

The Board passes certain responsibilities and authorities to a number of Board committees. We report on their important work later in this section.

## Our governance framework

Our governance and internal control framework helps the Board exercise proper oversight whilst retaining overall accountability.

## Our corporate governance statement

We're committed to following industry-leading best practice, maintaining the highest standards of business integrity, ethics, financial reporting and corporate governance in everything we do. The directors consider that throughout the year BT has complied with the provisions of the current UK Corporate Governance Code (the Code) and applied the main principles of the Code as described on pages 131 to 188 of this report.

The directors submit their report and the audited financial statements of the company, BT Group plc, and the group, which includes its subsidiary undertakings, for 2017/18. BT Group plc is the listed holding company for the BT group of companies. Its shares are listed on the London Stock Exchange, and on the New York Stock Exchange in the form of American Depositary Shares.

## Chairman's governance report 132

Our governance framework 133

Board of directors 134

The Board 136

Relations with shareholders 142

### Reports of the Board committees

– Audit & Risk Committee chairman's report 144

– Nominating & Governance Committee chairman's report 150

– BT Pensions Committee chair's report 152

– Committee for Sustainable and Responsible Business chair's report 153

– Investigatory Powers Governance Committee chairman's report 154

– Technology Committee chairman's report 155

## Report on directors' remuneration 156

– Remuneration Committee chairman's letter 157

– Focus on remuneration 158

– Annual remuneration report 161

– Remuneration policy 173

Directors' information 181

General information 183

Financial statements 189

Additional information 287



The Code and associated guidance are available on the Financial Reporting Council website at [frc.org.uk](http://frc.org.uk)

# Chairman's governance report



“We have embraced change and transformation across many areas of the business, and I believe BT is well positioned both to address its immediate challenges and to plan for the future.”

First, I would like to thank my predecessor, Sir Mike Rake, for the support and guidance he provided to me in my role as non-executive director before I became chairman on 1 November 2017. Sir Mike left a legacy of strong corporate governance and, before he left, had started to implement a number of important reforms I've been proud to continue and expand. We are already starting to see the positive effects of these across our business.

The Board adopted a refreshed set of delegations of authority. This has created clearer personal accountability and enabled better decision making at the top of the business. We are embedding the same principles across the group. The *Executive Committee* has replaced the *Operating Committee*, advising the chief executive or his delegate on the decisions for which they are individually accountable.

We have also created the *BT Investment Board* to provide recommendations and input to support the chief executive with his decision making on investment proposals.

As part of the DCR settlement with Ofcom, we have successfully created a more independent Openreach. Our agreement with Ofcom enhances the independence of the Openreach board, whilst maintaining the unit as an integral part of our business. We have created the *BT Compliance Committee* as a sub-committee of the *Audit & Risk Committee* to help ensure BT delivers the intended outcomes of the DCR settlement. As we look ahead, I believe we are in a strong position to address regulatory and structural challenges.

We have progressed well with our integration of EE into the BT group, to the point that we have agreed with Deutsche Telekom that the *Integration Committee* is no longer needed. The *Integration Committee* was therefore dissolved in October 2017.

Karen Richardson and Tony Ball will step down from the Board at the end of the 2018 AGM. I would like to thank Karen and Tony for their significant contribution to BT. We have begun a search process to replace the skills and experience that Karen and Tony bring to the Board, and will continue to strengthen our succession plans for the years ahead.

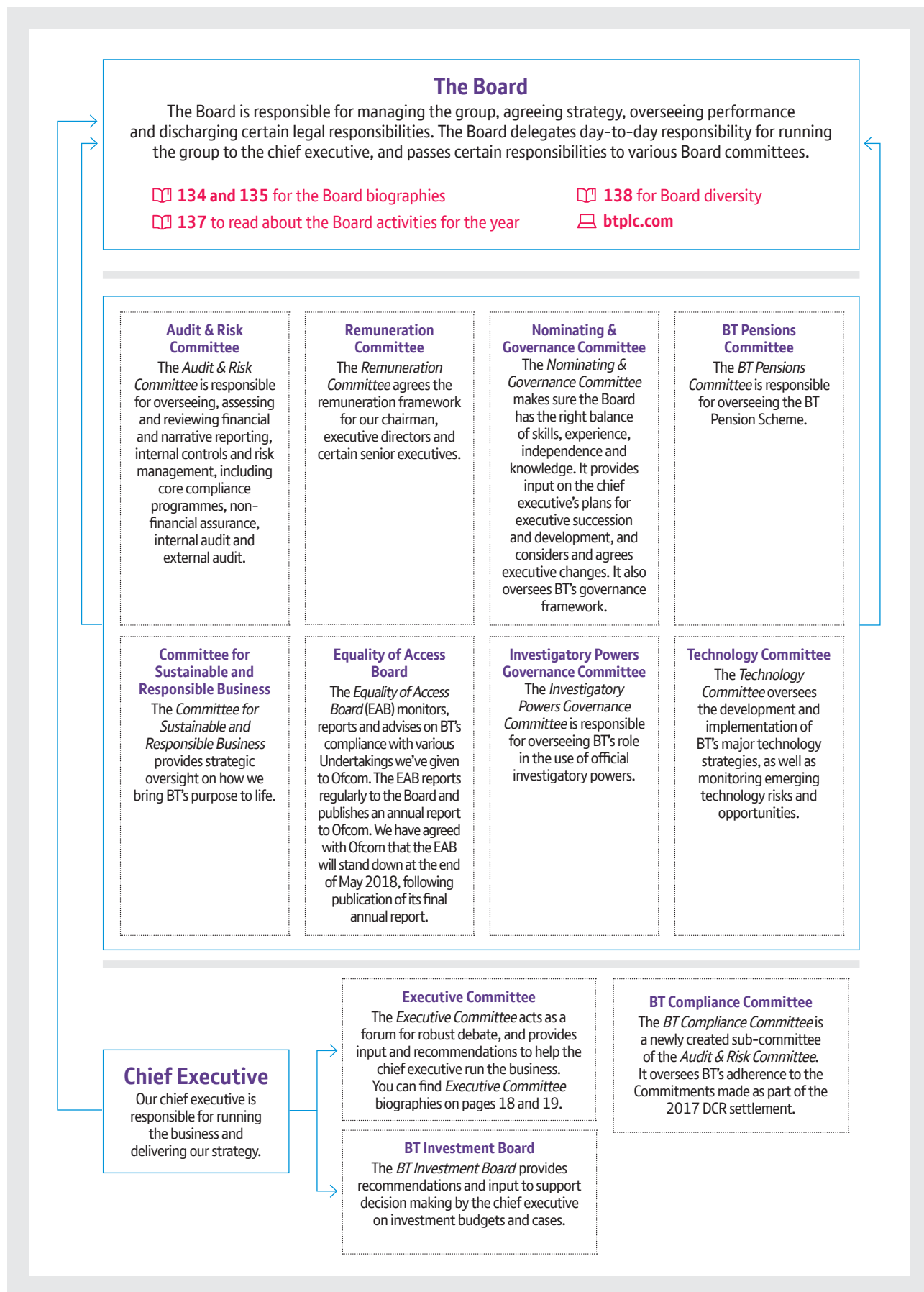
I would also like to thank the Board and executive team for all their efforts this year. We have embraced change and transformation across many areas of the business, and I believe BT is well positioned both to address its immediate challenges and to plan for the future. Indeed, I'm looking forward to the role we will all play in delivering this.

A handwritten signature in black ink, which appears to read 'Jan du Plessis'. The signature is fluid and cursive.

**Jan du Plessis**  
Chairman  
9 May 2018

# Our governance framework

Our governance framework is designed to support timely, effective decision making throughout our organisation.



# Board of Directors



**Jan du Plessis**  
Chairman  
Appointed chairman in November 2017 and on the Board since June 2017. Age 64.

#### Skills and experience

Jan has significant experience on the boards of major UK public companies, having served as chairman and non-executive director of various FTSE100 companies across a range of sectors. Jan stepped down as chairman of Rio Tinto in March 2018 having served in that role since 2009. Until October 2016 he was chairman of SABMiller, a role he held since July 2015, having been with the company since 2014. He was also a director and senior independent director of Marks & Spencer from 2008 and 2012 respectively until March 2015.

**Other appointments include**  
None outside BT.



**Gavin Patterson**  
Chief executive  
Appointed chief executive in September 2013 and on the Board since June 2008. Age 50.

#### Skills and experience

Gavin has experience in sales, marketing, technology and operations. He was previously CEO of BT Retail and from 2004 to 2008 was managing director of BT Consumer (BT Retail). Before joining BT, Gavin was managing director of the consumer division of Telewest (now Virgin Media). Prior to that he spent nine years at Procter & Gamble, rising to become European marketing director.

**Other appointments include**  
Non-executive director of British Airways and a member of the CBI President's Committee.



**Simon Lowth**  
Chief financial officer  
Appointed to the Board as chief financial officer in July 2016. Age 56.

#### Skills and experience

Simon has experience in finance, accounting, risk, corporate strategy and mergers and acquisitions. He was CFO and executive director of BG Group before the takeover by Royal Dutch Shell in February 2016. Simon was CFO and an executive director of AstraZeneca from 2007 to 2013, and an executive director of ScottishPower from 2003 to 2007, and was appointed finance director in 2005. Prior to that, Simon was a director of McKinsey & Company.

**Other appointments include**  
None outside BT.

#### Key to membership of Board committees

ARC	Audit & Risk	EC	Executive	REM	Remuneration	Committee chair
CC	BT Compliance	IPGC	Investigatory Powers Governance	CSRB	Sustainable & Responsible Business	
PEN	BT Pensions	NAG	Nominating & Governance	TC	Technology	
EAB	Equality of Access Board					



**Tony Ball**  
Independent non-executive director  
Appointed to the Board in July 2009. Age 62.

#### Skills and experience

Tony brings international business expertise in addition to financial, operational, sales, marketing and media experience. From 1999 to 2003 Tony was chief executive of BSkyB and until 2013 was chairman of Germany's largest cable operator, Kabel Deutschland GmbH. He has held a number of senior executive positions in broadcasting and telecoms businesses in the UK, US and Continental Europe.

**Other appointments include**  
Chairman of Ambassadors Theatre Group and Bité Group. Director of Banco Sabadell. Senior adviser to Providence Equity Partners and chairman of the advisory council of Portland PR.



**Iain Conn**  
Independent non-executive director  
Appointed to the Board in June 2014. Age 55.

#### Skills and experience

Iain has international experience, and an understanding of technology, energy and regulated consumer markets. Iain joined Centrica as chief executive in January 2015, having been with BP since 1986. From 2004 to 2014 Iain was executive director of BP and chief executive downstream from 2007 to 2014. Until May 2014, Iain was a non-executive director of Rolls-Royce for nine years, and senior independent director.

**Other appointments include**  
Member of the CBI President's Committee, chairman of the advisory board of the Imperial College Business School and member of the Imperial College Council.



**Tim Höttges**  
Non-independent, non-executive director  
Appointed to the Board in January 2016. Age 55.

#### Skills and experience

Tim has international telecoms experience having been CEO of Deutsche Telekom since January 2014, and with the company since 2000. From 2009 until his appointment as CEO, he was a member of the board of management responsible for finance and controlling. From 2006 to 2009 he was a member of the board of management responsible for the T-Home unit. In this position, he was in charge of the fixed-network and broadband business, as well as integrated sales and service in Germany.

**Other appointments include**  
Chairman of T-Mobile US and a supervisory board member of FC Bayern München AG and of Henkel AG & Co. KGaA.



**Isabel Hudson**  
Independent non-executive director  
Appointed to the Board in November 2014. Age 58.

#### Skills and experience

Isabel has experience in the financial sector as well as pensions, risk, control, governance and international business. Isabel was previously a non-executive director of The Pensions Regulator, MGM Advantage, QBE Insurance, Standard Life and an executive director of Prudential Assurance Company in the UK.

**Other appointments include**  
Non-executive chair of National House Building Council and senior independent director of RSA Insurance. Isabel is also an ambassador for the disability charity, SCOPE.



**Mike Inglis**  
Independent non-executive director  
Appointed to the Board in September 2015. Age 58.

#### Skills and experience

Mike's technology experience includes serving on the board of ARM Holdings from 2002 to 2013, with roles including chief commercial officer, executive vice president and general manager of the processor division and executive vice president of sales and marketing. Prior to joining ARM, Mike worked in management consultancy with AT Kearney and held a number of senior operational and marketing positions at Motorola. Mike was previously a director at Pace.

**Other appointments include**  
Non-executive chairman of Ilika and a director of Advanced Micro Devices.



**Karen Richardson**  
Independent non-executive director  
Appointed to the Board in November 2011. Age 55.

#### Skills and experience

With a career over 30 years in the technology and software industry, Karen brings experience in technology having held a number of senior operating roles in both the public and private technology sector. She is a former adviser to Silver Lake Partners, was with NASDAQ-listed software company Epiphany Inc, latterly as chief executive, and has served on a number of corporate boards including VirtuOz, Proofpoint, Hi5 Networks, Convercent and AYASDI.

**Other appointments include**  
Director of Exponent and Worldpay Group.



**Nick Rose**  
Independent non-executive director  
Appointed to the Board in January 2011 and senior independent director since March 2014. Age 60.

#### Skills and experience

Nick brings experience in finance, risk, control, governance and international business expertise. He was chief financial officer of Diageo prior to his retirement in December 2010, having joined the board in 1999.

**Other appointments include**  
Chairman of Williams Grand Prix Holdings, senior independent director of BAE Systems and non-executive chairman of Loch Lomond Scotch Whisky.



**Jasmine Whitbread**  
Independent non-executive director  
Appointed to the Board in January 2011. Age 54.

#### Skills and experience

Jasmine has experience in transforming large complex organisations in the UK and internationally and brings an understanding of corporate social responsibility and sustainable business. She was previously chief executive of Save the Children International and has a background in technology marketing.

**Other appointments include**  
Chief executive of London First and non-executive director of Standard Chartered.



**Dan Fitz**  
Company secretary  
Dan is the company secretary. He joined BT in April 2010 and was appointed company secretary in November 2012.

## Strong leadership

We've described the roles of the chairman and the chief executive in written job descriptions. These clarify and distinguish the responsibilities of both positions.

### The chairman

- leads the Board and creates a culture of openness characterised by debate and appropriate challenge
- promotes the highest standards of corporate governance
- ensures the Board understands the nature and extent of any significant risks BT is willing to take to implement its strategy
- makes sure that the Board receives accurate, timely and clear information, and is consulted on all relevant matters
- monitors the contribution and performance of Board members
- makes sure BT communicates clearly with shareholders and discusses their views and concerns with the Board
- acts as a key contact for important stakeholders, as well as working with the chief executive and the senior independent director to represent BT in key strategic and government relationships.

### The chief executive

- leads the group's performance and management
- proposes strategies, business plans and policies to the Board
- implements Board decisions, policies and strategies
- develops and promotes compliance with BT's policies on conducting business around the world
- maintains an effective framework of internal controls and risk management
- leads the *Executive Committee* in the day-to-day running of every part of the business
- leads, motivates and monitors the performance of BT's senior management team, as well as overseeing succession planning for roles on the *Executive Committee*.

## Rigorous challenge and independent oversight

### The independent non-executive directors

The independent non-executive director's role is to:

- bring experience and independent judgement to the Board
- develop and constructively challenge strategy proposals.

Each non-executive director is appointed for an initial three-year term but is subject to annual re-election by shareholders at the Annual General Meeting. Provided a director is re-elected by shareholders we may extend their appointment.

### The senior independent director

The senior independent director is a non-executive director whose role is to:

- meet with BT's major institutional shareholders and shareholder representative bodies to discuss matters that wouldn't be appropriate for discussion with the chairman or the chief executive
- act as a sounding board for the chairman and as an intermediary between the chairman and other directors
- review the chairman's performance during the year, taking account of feedback from other Board members.

### The non-independent, non-executive director

After acquiring EE, we appointed Deutsche Telekom's nominated director Tim Höttges to the Board. Tim owes a fiduciary duty to both BT and Deutsche Telekom. As a non-independent, non-executive director, Tim has the same responsibilities as the other directors; we set up the *Conflicted Matters Committee* to identify potential or actual conflicts of interest.

## Timely information and support

### The company secretary

- manages the flow of timely, accurate and well-considered information to the Board
- recommends corporate governance policies and practices to the chairman and the chief executive
- puts in place and promotes corporate governance policies across the group
- advises the Board and its committees on corporate governance and compliance across the group
- puts in place the right procedures for managing directors' meetings and duties
- monitors potential conflicts of interest
- chairs the *Conflicted Matters Committee* which reviews all Board papers and agenda items that could give rise to a conflicted matter for the Deutsche Telekom representative director.

The company secretary's appointment and removal is a matter for the whole Board.

### Independence of directors

The majority of the Board is made up of independent non-executive directors. We judged the chairman to be independent at the time of his appointment, and consider all other non-executive directors to be independent under the terms of the Code, with the exception of Tim Höttges, a non-independent, non-executive director.

### Time commitment

We set out the likely time commitment for each non-executive director in their appointment letter. This is of course an estimate and may change depending on the demands of the business. We expect non-executive directors to devote sufficient time to discharge their duties effectively and attend all meetings of the Board.

## Board activities over the year

The Board is responsible for deciding the group's strategy and overseeing its performance, while passing the responsibility for day-to-day operations to the chief executive. The Board is directly involved with approving major acquisitions, providing oversight and control, growing shareholder value and promoting corporate governance.

### Operational performance

- The chief executive provided an operational report at each Board meeting
- CEOs of customer-facing units and the CTIO presented updates on their respective business areas
- The Board reviewed customer experience performance.

### Governance and compliance

- Committee chairs reported on key matters discussed at the Board committees
- The company secretary reported on key governance developments at each Board meeting
- The Board reviewed and discussed feedback from the Board evaluation (see page 140).

The Board reviewed and approved:

- extensions to the appointments of Iain Conn, Isabel Hudson and Karen Richardson
- changes to committee membership (detailed in the committee reports) and terms of reference
- governance changes set out in the chairman's letter on page 132
- the creation of the *BT Compliance Committee* as a sub-committee of the *Audit & Risk Committee*. See page 145 for more details.

### Finance and investor relations

- The chief financial officer presented a financial report at each Board meeting.

The Board approved the:

- quarterly financial results and press releases
- Medium Term Financial Plan
- 2017 Annual Report and Form 20-F
- dividend policy
- tax strategy and control framework
- capital structure and liquidity
- settlement of warranty claims with Deutsche Telekom and Orange under the EE acquisition agreement for £225m.

### Strategy

We held a full strategy day in March which covered:

- market developments
- corporate strategy
- fixed and mobile network strategy
- Consumer strategy
- Global Services strategy.

During the year the Board also discussed:

- fixed and mobile network strategy
- TV, content and sports strategy
- customer experience strategy
- business transformation
- site strategy
- spectrum strategy.

### Audit and risk

- The chair of the *Audit & Risk Committee* reported to the Board on the proceedings of each meeting.

The Board approved:

- the *Audit & Risk Committee's* recommendation to appoint KPMG as the external auditor, subject to approval by shareholders at the 2018 Annual General Meeting
- remuneration of our external auditors, for audit and non-audit work
- our Group Risk Register.

See our *Audit & Risk Committee* chairman's report on pages 144 to 149 for more details.

### Stakeholders

The Board considered:

- customer experience
- health and safety reports
- organisational culture
- relationship with government and regulators including the implementation of the DCR settlement
- human rights
- pensions.

## Attendance at meetings

This table shows each director's attendance at Board meetings during the year. The chairman meets privately with independent non-executive directors before most scheduled Board meetings. Typically, directors who are unable to attend a Board meeting provide the chairman with their views and comments in advance.

<sup>a</sup> Jan was appointed to the Board as a non-executive director on 1 June 2017 and became chairman on 1 November 2017.

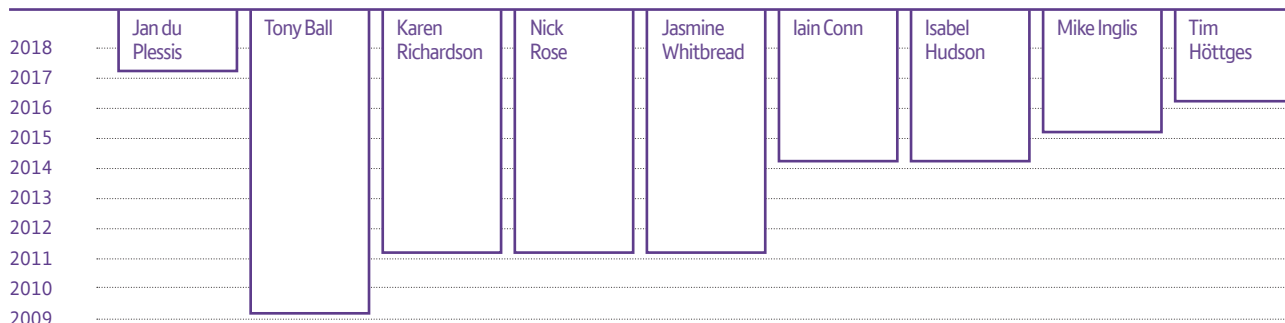
<sup>b</sup> Sir Michael Rake stepped down from the Board on 31 October 2017.

Member	Meetings	
	Eligible to attend	Attended
Jan du Plessis (chairman) <sup>a</sup>	8	8
Sir Michael Rake (chairman) <sup>b</sup>	7	7
Gavin Patterson	10	10
Simon Lowth	10	10
Tony Ball	10	9
Iain Conn	10	9
Tim Höttges	10	9
Isabel Hudson	10	10
Mike Inglis	10	10
Karen Richardson	10	9
Nick Rose	10	9
Jasmine Whitbread	10	9

### Director election and re-election

All directors will be proposed for re-election by shareholders at the 2018 AGM in line with the Code, apart from Karen Richardson and Tony Ball who will step down at the end of the 2018 AGM.

#### Length of appointment of chairman and non-executive directors



All non-executive appointments can be terminated on three months' notice and are subject to automatic termination if a director isn't elected or re-elected by shareholders at the AGM. We include details of all directors' contracts/letters of appointment in the **Report on directors' remuneration** on page 172.

### Training and information

We encourage all directors to keep their skills and knowledge up to date, and to help them we provide the Board and individual directors with any training they need. We take an equally proactive approach to management information, with the chief executive including business updates and insights in his regular report to the Board. These ensure directors have a sound understanding of BT's operational matters, the competitive and regulatory environment that affects the group and the wider communications industry, group and business unit performance, investor relations and corporate responsibility. In 2017 we held a governance seminar to update the Board on recent developments, including corporate governance reform initiatives and the Market Abuse Regulation. The company secretary also provides briefings during the year on any significant developments in legal, governance and compliance areas.

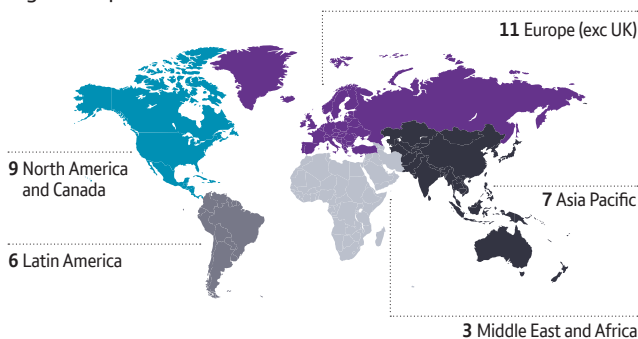
The chairman works with individual directors to identify any specific training they need to successfully fulfil their role.

Non-executive directors regularly meet with management and increase their understanding of the business through formal briefing sessions. The chairman typically holds private sessions with our independent non-executive directors before Board meetings, and holds Board dinners before most Board meetings, which are also attended by the non-independent, non-executive director, the chief executive and the chief financial officer. We hold a dinner at least once a year for members of the Board with the *Executive Committee*.

### Diversity of the Board

#### Regional experience

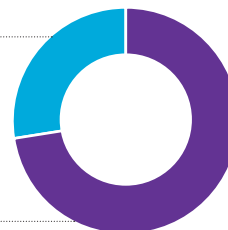
As well as experience in the UK, our directors also have the following regional experience:



#### Gender diversity

27% Female

73% Male



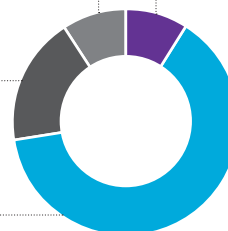
#### Balance of Board membership

One chairman

One non-independent, non-executive director

Two executive directors

Seven independent non-executive directors



### Board induction

Following their appointment, directors take part in an induction programme designed to increase their understanding of our business. After we announced Jan du Plessis's appointment in March 2017, Jan undertook a comprehensive induction programme which is described below.

### Chairman induction

The chairman's induction programme was designed to:

- build an understanding of our company, our people, our business and the markets in which we operate
- develop an understanding of BT's main relationships
- gain a thorough understanding of BT's governance framework.

Jan du Plessis joined as a non-executive director on 1 June 2017, which allowed Jan to familiarise himself with the company and the Board, and start his induction before becoming chairman on 1 November 2017. To achieve the above objectives, the tailored, ongoing induction programme included:

- meetings with each non-executive director (including the senior independent director), the executive directors and the company secretary
- meetings with *Executive Committee* members and other senior executives from areas across the business, such as finance, pensions, investor relations, corporate and regulatory affairs, security, legal and human resources
- visits to our sites, including Adastral Park, the BT Tower, the BT Archives, telephone exchanges and EE stores
- briefings on legal, governance and compliance matters, and guidance on BT policies covering anti-corruption and bribery, gifts and hospitality, charitable donations, sponsorship, and The Way We Work
- meetings with BT's external advisers and stakeholders, including our auditors, the regulator, remuneration consultants and investors.

### Integration Committee

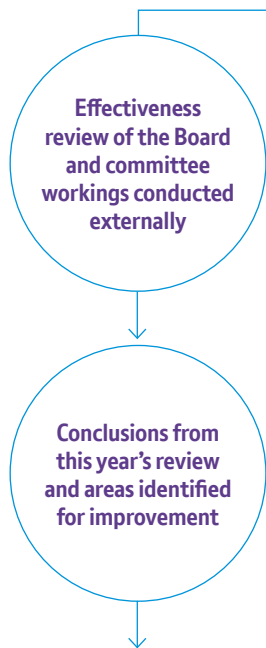
We created the *Integration Committee* following BT's acquisition of EE in January 2016, as required by the terms of the Relationship Agreement entered into by BT and Deutsche Telekom (DT). The committee's role was to monitor and oversee the integration of EE into BT. Its members were the chief executive, chief financial officer, non-executive directors Tony Ball and Nick Rose, and DT representative Thomas Dannenfeldt.

The integration of EE is progressing well, delivering £292m of cost synergies after the second year. We're on track to meet our £400m commitment by the end of 2019/20.

As a result we've agreed with DT that the *Integration Committee* is no longer required. In October 2017, the Board approved BT's entry into a Deed of Amendment to the Relationship Agreement, dissolving the *Integration Committee* with immediate effect.

Our integration team continues to oversee the successful integration of EE and reports to the *Executive Committee*, focusing on our customers, people, technology and the synergies we can realise through effective integration.



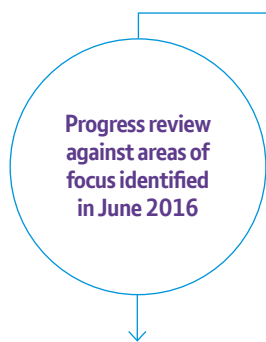


### Board evaluation

The Board engaged an external facilitator for the evaluation of the Board and its committees in 2017, in keeping with the guidance provided under the current UK Corporate Governance Code. The facilitator was Ffion Hague of Independent Board Evaluation (IBE), a specialist consultancy that undertakes no other business for BT. The chairman and company secretary provided a brief to IBE in March 2017. This included IBE attending and observing Board and some committee meetings in March and April 2017, as well as reviewing supporting materials designed to enhance the IBE team's understanding of how the Board and its committees operate. IBE also conducted detailed interviews with every Board member following a tailored agenda, with the IBE team also interviewing several *Executive Committee* members and senior managers across the business.

IBE presented its final report, together with recommendations, to the Board at its meeting in September 2017, which the Directors discussed and considered. IBE also prepared separate reports for the *Audit & Risk*, *Nominating & Governance* and *Remuneration Committees*; the conclusions were discussed by the relevant committees. The chairman, Sir Michael Rake, also received a report on each individual director that he subsequently reviewed with them. Nick Rose, as senior independent director, received a report on the chairman, Sir Michael Rake, and subsequently reviewed its findings with him.

In addition to receiving the IBE report, the Board and each committee considered the views of their respective members, as well as of others, on their performance over the year as a whole.



### Progress against areas of focus identified in June 2016

As well as considering the results of this year's evaluation, the directors also reviewed progress against the targets identified in 2016. They noted:

- the positive process around the succession of the chairman, with Jan du Plessis replacing Sir Michael Rake as chairman of the group in November 2017
- continued cooperation with Ofcom, including progress implementing the DCR settlement
- an increase in regular post-decision and post-investment reviews at Board level
- the Board's increased focus on strategy, people, EE integration and competition
- enhanced consideration of performance beyond the KPIs.



### Areas of focus from the 2017/18 evaluation

The Board's conclusion from this year's evaluation exercise was that the Board and its committees function well, although the Board also identified certain areas in need of improvement. Areas that the Board viewed as working well include Board culture, the Board's relationship with senior management, and new director inductions. The directors believe that Board members are engaged and hard-working, with a good mix of skills, experience and approach. The Board is pleased with its ability to robustly debate difficult issues, with directors seen to act with determination and appropriate seriousness in light of recent challenges.

### Following the evaluation, the Board will focus on

- further clarifying the allocation of risk oversight responsibilities across the Board and its committees to ensure the directors effectively discharge their obligations
- prioritising discussions to spend more time on the most important issues facing the company
- spending more time with management on strategic matters
- increasing attention on succession planning for senior management, including succession plans for the *Executive Committee*. The *Nominating & Governance Committee* is now the forum which considers executive succession planning. You can find more details on page 151
- devoting more Board time to monitoring the evolution of our culture.

# Effectiveness in action

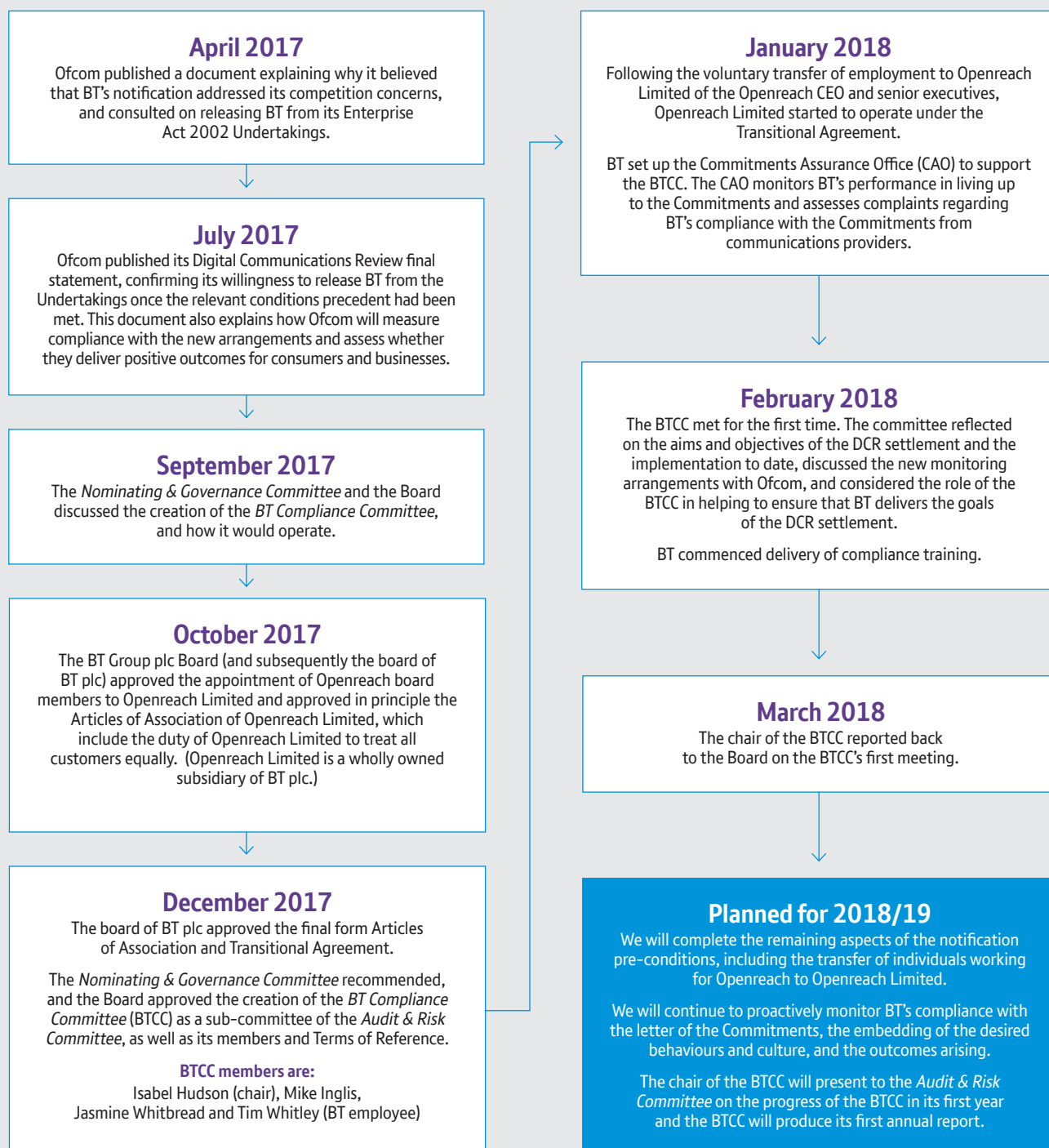
## Ofcom's Digital Communications Review – implementing the settlement

Over the last two years, BT has been working closely with Ofcom to reach a conclusion on their review of the UK's digital communications, and implement the outcome. Among other things, the review looked at the independence of Openreach as part of the BT group.

In March 2017 the BT Group plc Board authorised British Telecommunications plc (BT plc) to notify Ofcom of its intent to enhance the functional separation of Openreach, to make sure that Openreach will secure greater strategic and operational independence by means of Commitments and a new Governance Protocol. We had already, in the course of 2016/17, created the independent Openreach board and Openreach board audit & risk compliance committee.

 A letter from the Openreach chairman can be found on page 105.

Here are the further steps the Board and its committees have taken to implement the settlement.



# Relations with shareholders

## Individual shareholders

We have a large number of individual shareholders. They are regular users of our website, receive electronic communications, and all are invited to attend our AGM. The company secretary oversees communications with private shareholders, making sure we respond directly as appropriate to any matters regarding their shareholding, and a dedicated team at Equiniti (our share registrar) also looks after their needs. We encourage direct payment of dividends and e-communications – this improves the security and efficiency of our communications and reduces the amount of paper we use.

## Institutional shareholders

Our executive management team aims to meet with institutional investors regularly. The chairman, senior independent director and other Board members also meet investors where appropriate. We do this via an investor relations programme that includes one-to-one meetings, roadshows, group meetings, conferences and industry events. During 2017/18 we held around 450 meetings with investors, covering a wide range of topics including our strategy, operational performance, capital investment, pension, relations with government and our regulator, and capital allocation policy. We gather feedback from our main shareholders and this is regularly considered by management and the Board.

Here are some of the ways we engage with our shareholders:

AGM	The AGM provides an opportunity for directors to engage with shareholders, answer their questions and meet them informally. The 2018 AGM will take place on Wednesday 11 July in Edinburgh. We invite all shareholders to attend and use the opportunity to ask questions. We encourage those who can't attend to vote by proxy on all the resolutions put forward. All votes (with the exception of procedural resolutions) are taken by a poll. In 2017, voting levels at the AGM were over 70% of the company's issued share capital, the same level as in 2016.
Annual Report	We publish a full annual report and accounts each year which contains a strategic report, governance section, financial statements, and additional information. The report is available in paper format and online.
Annual shareholder survey	During the year, we surveyed 13,000 private shareholders selected at random to help us improve shareholder engagement. We've continued to include more information on our financial performance, strategy, purpose and future plans in our shareholder communications.
Press releases	We issue press releases for all substantive news relating to BT's financial and operational performance. You can find press releases on our website.
Results announcements	From the first quarter of 2018/19 we will be changing the way we report. We will continue to release a full set of financial and operational results at the interim and full year stage. We will release trading statements at the first and third quarter with reduced disclosure, whilst still providing sufficient information to allow investors to model and value our business. The interim and full year results will be accompanied by presentations hosted by senior management, and the Q1 and Q3 results will be webcast. All our results events provide the opportunity for investors to ask questions of management.
Website	Our website is regularly updated and contains a comprehensive range of information on our company. There is a section dedicated to investors, which has our investor calendar, financial results, presentation, press releases and contact details. The area dedicated to individual shareholders is an essential communications channel. It includes information on shareholder news, administration services, contact information, and information for UK shareholders on capital gains tax.  <b><a href="http://btplc.com">btplc.com</a></b>

## Substantial shareholdings

At 9 May 2018, BT had received notice, under the Financial Conduct Authority's Disclosure Guidance & Transparency Rules, in respect of the following holdings of shares:

	Date of notification	Shares	% of total voting rights
Orange SA	22 June 2017	265,725,107	2.66%
BlackRock Inc	4 May 2018	495,542,444	4.99%

At 31 March 2018, BlackRock's interest was 572,491,666 shares representing 5.77% of total voting rights. No requirement to notify the company of any increase or decrease would have arisen unless the holding moved up or down a whole number percentage level. The percentage level may decrease on the transfer of treasury shares for any of the company's share plans.

In addition, T-Mobile Holdings Limited holds 1,196,175,322 shares representing 12% of total voting rights. On 23 March 2018, we received notification from Deutsche Telekom AG (as nominee for T-Mobile Holdings Limited) that the 12% holding had transferred into their pension trust.

As partial consideration for our purchase of EE Limited in January 2016, we issued 1,594,900,429 new ordinary shares to T-Mobile Holdings Limited and Orange Telecommunications Group Limited.

## Annual General Meeting

### Resolutions

We'll ask our shareholders to vote on both the Annual Report and the **Report on directors' remuneration** at our AGM.

As part of our policy to involve shareholders fully in the affairs of the company, at our AGM we give them the opportunity to ask questions about BT's activities. We also give shareholders the opportunity to vote on every important issue by proposing a separate resolution for each. Before the AGM, we count the proxy votes for and against each resolution, as well as votes withheld, and make the results available at the meeting. As at previous AGMs, we'll take votes on all matters at the 2018 AGM on a poll, except procedural issues. We'll count every vote cast, whether in person or by proxy at the meeting, and post the outcome of voting on the resolutions on our website as soon as possible after the meeting. It's our policy for all directors to attend the AGM if possible. While, because of ill health or other pressing reasons, this may not always be possible, in normal circumstances this means that the chairs of the *Audit & Risk*, *Nominating & Governance* and *Remuneration Committees* are at the AGM and are available to answer questions. Mike Inglis did not attend the 2017 AGM due to family circumstances. All other directors attended.

The separate **Notice of meeting 2018**, which we send to all shareholders who have requested shareholder documents by post, contains the 19 resolutions (with explanatory notes) we will propose at the 2018 AGM on 11 July in Edinburgh. We notify all shareholders of the publication of these documents, which we send out in the most cost-effective way. We aim to give as much notice of our AGM as possible and at least 21 clear days' notice, as required by our Articles of Association. In practice, we send these documents to shareholders more than 20 working days before the AGM. (For other general meetings this should be at least 14 working days in advance.)

At each meeting at which the company's accounts are presented to its members, the company is required to appoint auditors to serve until the next such meeting. In June 2017, we announced completion of a formal tender process for external audit services, details of which can be found on page 148. On the recommendation of the *Audit & Risk Committee*, the Board proposes that KPMG LLP be appointed as the company's new auditors.

PricewaterhouseCoopers LLP (PwC) will stand down as the company's auditors at the conclusion of the AGM.

### Authority to purchase shares

The authority given at last year's AGM for BT to purchase in the market 996m of its shares, representing 10% of the issued share capital, expires on 11 July 2018. We'll ask shareholders to give a similar authority at the 2018 AGM.

During 2017/18, we purchased 43m shares of 5p each under this authority (0.43% of the share capital) for a consideration of £125m, at an average price of £2.88 per share. During 2017/18, we transferred 4.9m treasury shares to meet BT's obligations under our employee share plans. We purchased all of the 43m shares in an Offering of BT shares by Orange in June 2017. At 9 May 2018, we held a total of 46.2m shares as treasury shares.

In addition, the BT Group Employee Share Ownership Trust (the Trust) purchased 32.4m BT shares for a total consideration of £95m. The Trust purchased 26m of those shares in the Offering of BT shares by Orange in June 2017. The Trust continued to hold 12.8m shares at 9 May 2018.

# Audit & Risk Committee

## Chairman's report



“Much of the committee’s work over the past year has focused on the implementation of the improvement actions identified following the issues in Italy, as well as improving our risk, controls and compliance agenda, and the selection and transition to KPMG, our new external auditors. We undoubtedly finished the year with a stronger control and governance environment.”

### Our key responsibilities

- Effective governance over the appropriateness of the group’s financial reporting, including the adequacy of related disclosures
- Oversight of the group’s system of internal control, including risk management
- Oversight of the work and findings of internal and external audit
- Review of the effectiveness of processes for compliance with laws, regulations and ethical codes of practice, including the company’s Speak Up arrangements.

The committee meeting agendas include standing items that are considered regularly, in addition to any specific matters that require the committee’s attention.

### Membership and attendance

Member	Meetings	
	Eligible to attend	Attended
Nick Rose (chairman)	9	9
Iain Conn	9	7
Karen Richardson	9	9
Jasmine Whitbread	9	9

The committee acts independently of the executive and all its members are non-executive directors of the company, with diverse skills and experiences. I continue to have recent and relevant financial experience as required by the provisions of the current UK Corporate Governance Code and I am the designated financial expert for Sarbanes-Oxley Act purposes.

The company secretary is secretary to the committee and attends all meetings. Other attendees include:

	Regular attendee	Attends as required
Chief financial officer	●	
Director group finance	●	
Director internal audit	●	
External auditor	●	
Director enterprise risk management		●
Director group ethics, compliance & governance		●

As chairman of the *Audit & Risk Committee*, I meet with the regular attendees ahead of meetings to discuss key areas of focus for the committee. The external auditors were not present at meetings when we discussed their performance and/ or their remuneration.

The chairman, chief executive and KPMG have attended some of our meetings during the year.

The committee met nine times during the year. Meetings are scheduled in line with the financial reporting timetable and, after each meeting, I report to the Board on the activity of the committee, the main issues discussed and matters of particular relevance, with the Board receiving copies of the committee minutes.

During the year, we hold separate sessions with the internal and external auditors in the absence of management.

## Activities in 2017/18

### BT Italy

Last year, I reported to you on the improper practices that came to light in our Italian business and that we had instructed KPMG to perform an independent investigation, directly reporting to me and the BT chairman, while management conducted its own review.

Management identified a number of internal control deficiencies related to our Italian business. Together these deficiencies constituted a material weakness in the control environment and management concluded that, as at 31 March 2017, our internal control over financial reporting was not effective. This resulted in the implementation of a number of changes across the group, including steps to improve processes and controls, not only in Italy, but also in our shared service centres, in Global Services and across the wider group.

During the year, we've overseen the implementation of these changes with regular updates to committee meetings. During the year, we've also overseen management's reassessment of the accounting for judgements and estimates they've made as a result of the investigation. This concluded that the total adjustments recorded in 2016/17, either as part of the prior year revision or as a specific item, remain appropriate and thus no further adjustment is required (see note 8 to the Financial Statements).

In relation to the matters that gave rise to the material weakness in the control environment, which existed as at 31 March 2017, management have strengthened the review of reconciliations, journals, results and the financial position for Italy. Specifically, management:

- introduced enhanced and detailed policies and procedures, including a detailed checklist that must be followed when reviewing any journals in Italy and in our Budapest shared service centre
- enhanced the review of reconciliations including the review of significant and aged reconciling items within balance sheet account reconciliations
- introduced new detailed oversight controls to holistically review the results and financial position of Italy and other material overseas territories.

We also introduced similar enhancements to journals, reconciliation and oversight controls (assessing the results and financial position) in relation to other material overseas territories and provided additional control guidance and procedures to local finance teams, including a clear policy as to when and whom concerns should be escalated.

Each of these enhanced and new controls is operating effectively.

Management have also sought to improve the capabilities of our functions outside the UK. They have reviewed the talent mix on international leadership teams, including establishing an ex-pat programme. Within Italy, management have made further senior finance appointments including a new deputy CFO and financial controller. They have established monitoring to detect early warning signs and assessed target setting and remuneration to ensure it reflects balanced risks and opportunities.

Management have continued their programme of detailed balance sheet reviews in our operations in Global Services outside of the UK. Combined with the reviews performed in 2016/17, these have now covered around 80% by asset value of the operations outside the UK. These reviews have not identified any similar issues or areas of concern elsewhere, giving us comfort that the inappropriate behaviours were isolated to Italy. The reviews continued to be supported by EY. Management are creating a new central financial controls and compliance team, who will perform these reviews and set and maintain controls policies and standards going forward.

Across the group, management have enhanced the controls and compliance programmes to strengthen awareness of the standards we expect, and reinforced the importance of doing business in an ethical and disciplined way. Management have also sought to enhance the capabilities of our people. All finance employees have completed financial statement fraud awareness training which includes a module on how to escalate concerns. Management have redefined and communicated our three lines of defence model and developed and communicated these enhanced controls, policies and procedures.

At the group level, management have introduced enhanced integrated financial risk and assurance reviews which combine a review of controls and compliance issues, external and internal audit findings, risk registers and legal matters, alongside the reviews of performance, financial position, business and accounting issues and quality of earnings analysis of each of our customer-facing units and corporate units.

While we are satisfied with the improvements to processes and controls we have implemented in the year, we recognise that further system and process improvement opportunities exist which will continue to be a focus in 2018/19.

The committee has focused on understanding and challenging management on these improvements to governance, compliance and financial safeguards.

### BT Compliance Committee

The Board approved the creation of the *BT Compliance Committee*, as a sub-committee of the *Audit & Risk Committee*, to oversee BT's compliance with the Commitments, as part of the 2017 Digital Communications Review (DCR) settlement with Ofcom. This committee helps ensure BT delivers the intended outcomes of the settlement and reviews the culture and behaviours across BT and whether these are conducive to BT's adherence, and the delivery of, the DCR objectives.

As chairman of the *Audit & Risk Committee*, I see the agendas, minutes and discussions of the *BT Compliance Committee*, of which there were two meetings in 2017/18. The chair of the *BT Compliance Committee* will present to the *Audit & Risk Committee* later in 2018/19, on the work of the committee.

## Audit & Risk Committee continued

### Chairman's report continued

#### Other key matters considered by the committee

A summary of key matters we considered and discussed at each meeting during the financial year and the year to date are set out below:

#### April 2017

- BT Italy – update on KPMG review
- Major litigation
- External audit & non-audit fees
- External auditor effectiveness review
- Committee effectiveness review
- Sarbanes-Oxley update
- Draft Annual Report & Form 20-F 2017
- External auditor report
- Internal audit plan of work and internal audit charter.

#### May 2017

- BT Italy – update on work streams
- Full-year results statement
- Annual Report & Form 20-F 2017, including a review to ensure the report was fair, balanced and understandable
- Going concern and viability statement
- Major contracts review
- External and internal audit reports
- Ethics & compliance update and Speak Up cases.

#### June 2017

- Review of the regulatory financial statements
- Security risk management update
- Audit tender update
- Committee effectiveness.

#### July 2017

- IT general controls
- External and internal audit reports
- Openreach board audit risk & compliance committee update
- Update on the Deemed Consent review
- BT Italy remediation work streams
- Sarbanes-Oxley update
- First quarter results
- Non-audit fees
- Regional governance committee update.

#### September 2017

- Risk updates from the chief executive and the CEOs of the customer-facing units.

#### October 2017

- BT Italy remediation work streams
- External auditors' remuneration and non-audit fees
- Major contracts review
- Half-year results and press release
- External and internal audit reports
- Going concern assessment
- External audit plan 2017/18
- Internal control requirements
- Ethics & compliance update
- Regional governance committee update
- Sarbanes-Oxley update.

#### December 2017

- Regional governance committee updates
- Ethics & compliance update and Speak Up cases
- Global audit trend analysis.

#### January 2018

- BT Italy remediation work streams
- Third quarter results
- External and internal audit reports
- Security risk management update.

#### March 2018

- BT Italy remediation update
- Accounting policies and reporting developments
- External auditor report
- Pre year-end accounting judgements.

#### April 2018

- BT Italy remediation update
- External audit & non-audit fees
- Openreach board audit risk & compliance committee update
- Sarbanes-Oxley update
- Draft Annual Report & Form 20-F 2018
- External auditor report
- Internal audit plan of work and internal audit charter
- Ethics & compliance update.

#### May 2018

- BT Italy remediation update
- Full-year results statements
- Sarbanes-Oxley update
- Annual Report & Form 20-F 2018, including a review to ensure the report was fair, balanced and understandable
- Going concern and viability statement
- External and internal audit reports
- Litigation, competition and regulatory law update
- General Data Protection Regulation (GDPR) update.

### Financial reporting

The committee:

- reviewed the Annual Report & Form 20-F, together with annual, half-year and quarterly results announcements for recommendation to the Board
- considered the quality and appropriateness of accounting policies and practices and critical accounting estimates and key judgements
- assessed whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy. This formed the basis of the advice given to the Board.

In addition to BT Italy, other significant issues the committee considered in relation to the financial statements for the year ended 31 March 2018 are set out below. We discussed these with the external auditors during the year.

### Group accounting policies, critical accounting estimates and judgements

We reviewed the accounting policies and the disclosures in the consolidated financial statements that relate to critical accounting estimates and judgements, and re-confirmed that they remain appropriate for the group. In particular, we reviewed and challenged the key judgements and assumptions in relation to provisions, including restructuring, regulatory risks and litigation, and the assumed level of take-up in the BDUK programme which affects the value of potential obligation to re-invest or repay grant funding.

The committee, on receiving reports from management, discussed the implementation processes for the adoption of IFRS 9 "Financial Instruments", IFRS 15 "Revenue from Contracts with Customers" and IFRS 16 "Leases", and the impacts and key judgements of these on the group's accounting when adopted. In regards to IFRS 15, which we adopted from 1 April 2018, the committee reviewed a summary of the process on the creation and validation of the IFRS 15 models, which have been built in each of our customer-facing units.

### Going concern

We considered management's forecasts of group cash flows and net debt, as well as our liquidity requirements and the borrowing facilities available to the group. Following this review and a discussion of the sensitivities, we confirmed that the going concern basis of accounting continues to be an appropriate basis of preparation for the financial statements. Further detail on the basis of the going concern assessment by the directors is set out on page 182.

### Viability statement

As part of the committee's responsibility to provide advice to the Board on the form and basis underlying the viability statement, the committee reviewed the process and assessment of the group's prospects made by management. This summarised the time horizon and how this aligned with the group's long-term forecasts and how we meet the requirement in the current UK Corporate Governance Code. The committee discussed BT's approach to developing the statement and how we propose to take account of the company's current position and principal risks in informing the statement. The committee also considered the Group Risks included in management's stress testing model.

The committee was satisfied that the viability statement could be provided, and endorsed the continued selection of a three-year time horizon as a basis for the statement and the approach to its development. Further detail on the assessment of viability and the viability statement are set out on page 71.

### Regulatory reporting

We reviewed and were supportive of the changes across people, processes and systems that were put in place to ensure that we met our 2017/18 regulatory financial obligations.

### Goodwill impairment

The judgements in regards to impairment testing continue to relate primarily to the assumptions underlying the calculation of the value in use of the group's businesses. During the year and in May 2018, we reviewed the processes and consistency of applying the methodology for assessing the carrying value of goodwill. We also considered the cash flow forecasts for the group's cash generating units (CGUs) that hold goodwill, being BT Consumer, EE, Business and Public Sector, Global Services, and Wholesale and Ventures.

We considered the key assumptions, resulting headroom and the sensitivity analysis performed by management in forming its assessment and agreed that no goodwill impairment charges were required this year. The committee was satisfied with the appropriateness of the analysis performed by management. With regards to Global Services, we reviewed the impact of the deterioration in international corporate markets. We also discussed and agreed with management's disclosures in respect of the headroom in Global Services in note 12 to the financial statements.

### BT Pension Scheme

We reviewed the assumptions underlying the valuation of the pension liabilities in the financial statements and considered the financial assumptions, including the refinement to the approach used to calculate the discount rate and assumptions for future inflation, salary increase expectations and pension increases, as summarised in note 20 to the financial statements. We also considered sensitivities around the assumptions and the impact of the assumptions on the 2017/18 balance sheet and 2017/18 income statement and the related disclosures.

### Major contracts

In addition to our review of the appropriateness of accounting policies, management provided regular updates on the performance of major contracts within Business and Public Sector, Global Services and the Emergency Services Network contract in EE. Management regularly monitor BT's exposure in regards to major centres and the updates to the committee included an overview of the trading and operational performance of the contracts, an assessment of the recoverability of dedicated contract assets, an assessment of the future performance of the contracts and any requirement for loss provisions.

### Asset verification and asset lives

We considered the results of management's annual asset life review, asset verification exercise and review of fully depreciated assets. We considered the judgements taken in relation to asset lives and the methodology applied to consider asset verification. We were satisfied that the proposed adjustments were appropriate.



# Audit & Risk Committee continued

## Chairman's report continued

### Other matters

Each quarter, as part of our review of the quarterly results, we're provided with a summary of specific items and management's view of the quality of earnings and of the effective tax rate. We considered whether specific items are appropriately categorised. At the half year and full year, a detailed assessment of provisions is also provided and discussed. In each quarter and for the full year, the committee was satisfied with the information, analysis and explanations provided in relation to the results.

### External audit

The committee:

- considered and approved the auditors' group audit plan – this followed discussion with the auditors on the scope of the work to be undertaken, as well as their consideration of risk informing their plan
- reviewed reports on audit fees, external audit findings and the letter of engagement
- considered and approved the letter of representation.

The committee and the external auditors have discussed the issues addressed by the committee during the year and the areas of particular audit focus, as described in the **Independent auditors' report** on pages 190 to 200.

### Auditor effectiveness

The committee discussed the quality of the audit throughout the year and typically considers the performance of the external auditors annually. As detailed below, the company put its external audit out for tender this year. Given that the audit was put out to tender and the current auditor did not participate in the process, it was decided that there was limited value in conducting an effectiveness review of the external auditor this year.

### Audit tender

PwC and its predecessor firms have been BT's auditors since BT listed on the London Stock Exchange in 1984. I reported to you last year that in our annual review of the external audit arrangements, we recommended to the Board that the audit tender process be accelerated with a view to appointing new auditors for the financial year 2018/19.

Two firms, EY and KPMG, were invited to submit tenders. PwC would not be able to act as auditors beyond 2020/21 and did not participate. Deloitte are embedded in our IFRS 15 implementation project and replacing them would have presented an unacceptable business risk to the company.

The audit tender process was led by me as *Audit & Risk Committee* chairman. A robust process was carried out and a summary of this is shown below.

We had a common set of criteria for evaluating the proposals including:

- audit approach and quality
- the lead partner and their audit team
- sector experience
- approach to resolving issues or matters of judgement
- values alignment and cultural fit.

The proposals presented to us by EY and KPMG were subject to detailed evaluation and discussion which enabled us to recommend to the Board, who endorsed the appointment of KPMG as the preferred new auditor.

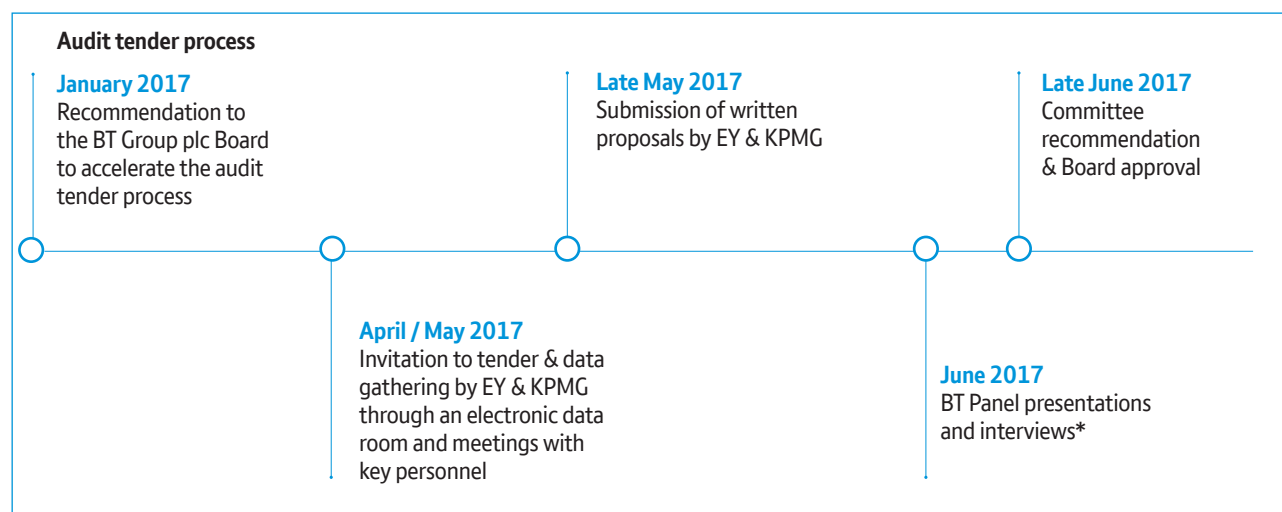
In February 2018, KPMG became independent and planning activities commenced for the 2018/19 audit.

The company confirms that it complied with the provisions of the Competition and Markets Authority's Order, for the financial year under review.

### Independence and objectivity

BT has agreed policies in place on what non-audit services can be provided by the external auditors. The external auditors are not permitted to perform any work which they may be later required to audit or which might affect their objectivity and independence, or create a conflict of interest. There are internal procedures in place for the approval of work to be performed by the external auditors.

During the year, we have considered independence matters and areas which could give rise to a conflict of interest. We noted the safeguards that the external auditors have in place to prevent compromising their independence and objectivity.



\* The panel included some members of the committee (the lead audit partners from both EY and KPMG presented separately to committee members who were unable to attend this session), the chairman, chief executive, chief financial officer, group general counsel & company secretary and group financial controller.

We reviewed and approved changes to BT's non-audit fee policy during 2016/17, in light of the FRC Revised Ethical Standard for auditors. This came into effect for BT's auditors from 1 April 2017. The changes included: extending the categories of prohibited non-audit services, in particular, to include tax services, reducing the categories of pre-approved services, and lowering the limit below which non-audit services can be pre-approved. This applied to PwC throughout the year and to KPMG from the point they became independent to commence their audit planning.

We monitored compliance with the agreed policies and the level of non-audit fees paid to the auditors in order to satisfy ourselves that the types of services being provided and the fees incurred were appropriate. You can see details of non-audit services carried out by the external auditors in note 7 to the consolidated financial statements. In this context, audit-related assurance services, which included the audit of the Regulatory Financial Statements, are considered to pose a low threat to auditor independence and therefore the proportion of other non-audit services to total services is considered the most suitable measure of the non-audit services provided. These represented 6% of the total fees (2016/17: 20%). Further details of the non-audit services that are prohibited and allowed under the policy can be found on our website.

#### Internal audit

We approve the internal annual audit plan at the start of each year and receive regular updates from the director, group internal audit on audit activities, progress against plan, details of unsatisfactory audits and action plans to address these. Twice annually, the committee also reviews a paper from the director, group internal audit on the performance of the function, and we periodically commission external effectiveness reviews of internal audit; the next such review is scheduled for the full year 2018/19.

During the year, I highlighted to the Board that the committee was disappointed to note that the positive trend in reducing the volume of overdue audit recommendations had not been maintained and that the long-term overdue recommendations had also increased. We were assured that management were closely monitoring this trend and that it has been appropriately overseen by the *Executive Committee*. As a result of this oversight, we have seen a drop in both overdue audit recommendations and long-term overdue audit recommendations in recent quarters, and year on year, compared with 2016/17.

#### Internal controls and risk management

In accordance with the provisions of the current UK Corporate Governance Code, BT has in place an internal controls environment to protect the business from material risks which have been identified within the group. Management is responsible for establishing and maintaining adequate internal controls over financial reporting and we have responsibility for ensuring the effectiveness of these controls. To enable us to do this, each quarter the customer-facing units certify compliance with the FRC's risk management guidance and Sarbanes-Oxley controls. The outcomes of these reviews are reported to us.

As previously reported, the investigations into the improper practices in our Italian business identified a number of control deficiencies. More details on BT Italy can be found on page 145. Management have taken steps to improve systems, processes and controls, not only in Italy, but also in our shared service centres, in Global Services and across the group. Management have also enhanced our controls and compliance programmes to

strengthen awareness of the standards we expect, and reinforced the importance of doing business in an ethical and disciplined way. Management have also sought to enhance the capabilities of our people.

BT's risk management processes, which have been in place throughout the period under review, identify and monitor the risks facing the group. We have also introduced enhanced integrated financial risk and assurance reviews. The risks which are considered material are reviewed regularly by the *Executive Committee* and the Board.

During the year, the committee heard from the chief executive on the enterprise-wide risk management process, the key risks facing the group as a whole, and the three lines of defence. Each customer-facing unit CEO presented on the three lines of defence and how they operate, culture and the escalation of issues, and how material risks are identified, evaluated and managed.

The Board is ultimately responsible for the group's systems of internal controls and risk management. You can find details of the Board's and our review of the group's systems of internal control and risk management on page 185 and for details of the assessment of internal controls, for the purposes of the Sarbanes-Oxley Act, see US Regulation on page 183.

#### Governance & compliance

We received and considered reports from management on:

- our ethics and compliance priorities and plan of work
- Speak Up (BT's confidential hotline service) reports, including statistics, trends outcomes and material investigations. We ensure that arrangements are in place for the proportionate, independent investigation and follow up of these matters
- regulatory compliance and privacy and data governance
- anti-corruption and bribery
- learning and culture across BT, and results from the group-wide 2017 ethics survey
- the effectiveness of our regional governance committees, which monitor governance and compliance in their respective regions. We were also updated on the work of several of these committees.

#### Committee evaluation 2017/18

As part of the Board evaluation we reviewed the committee's effectiveness, having regard to the findings of the external facilitator and the inputs of others. We concluded that the committee is open, with a good level of discussion between members and attendees. We have seen significant improvements in the materials that are presented to us and this has helped aid more focused debate at our meetings. The attendance of both the chairman and chief executive at some of our meetings has benefited the committee, as they provide an additional overview of and insight into the business.

We concluded that the committee would benefit from the appointment of an additional financial expert and this is being addressed through discussions with the chairman and at the *Nominating & Governance Committee*.

**Nick Rose**  
Chairman of the Audit & Risk Committee  
9 May 2018

# Nominating & Governance Committee

## Chairman's report



“As we transform our business, it continues to be vitally important that our Board members and executive team have the right balance of skills, experience, independence and knowledge, supported by robust governance processes, to allow them to lead the company effectively.”

### Our key responsibilities

- Lead the appointment process for new directors and make recommendations to the Board
- Ensure our Board and committee members have the right balance of skills, experience, diversity, independence and knowledge to effectively discharge their duties
- Oversee BT's governance framework
- Provide input on the chief executive's plans for executive succession and executive changes.

### Membership and attendance

Member	Meetings	
	Eligible to attend	Attended
Jan du Plessis (chairman) <sup>a</sup>	2	2
Sir Michael Rake <sup>b</sup>	1	1
Tony Ball	3	2
Iain Conn	3	3
Isabel Hudson	3	3
Nick Rose	3	3

<sup>a</sup> Jan du Plessis joined the committee as a member on 1 June 2017, and has chaired it since 1 November 2017.

<sup>b</sup> Sir Michael Rake chaired the committee until he stepped down on 31 October 2017.

The company secretary attends our meetings, as does the chief executive where appropriate.

I would also like to welcome Mike Inglis, Jasmine Whitbread and Tim Höttges to the committee. Jasmine and Mike were appointed from 1 April 2018, and Tim from 1 May 2018.

### Activities in 2017/18

#### Succession and Board composition

##### Board and committee composition

Our role is to ensure our Board and committees have the right balance of skills, experience, diversity, independence and knowledge to effectively discharge their duties.

The committee recommended to the Board that Isabel Hudson and Karen Richardson's appointments as non-executive directors be extended for a further three-year term, both starting from 1 November 2017. Karen subsequently decided to step down from the Board at the end of the 2018 AGM. In line with the current UK Corporate Governance Code, the extension of a non-executive director's term beyond six years is subject to particularly careful review. Our recommendation followed detailed consideration of Isabel's and Karen's performance, as well as the experience and skills they both bring to the Board and the respective committees of which they are members. We consider that both continue to be independent in character and judgement, and are valued members of the Board.

All non-executive appointments can be terminated on three months' notice and are subject to automatic termination if a director isn't elected or re-elected by shareholders at the AGM.

We believe we have an appropriate composition for the Board and each of our Board committees. We keep this under constant review, and reflect potential future requirements in our succession plans.

#### Succession

As some of our non-executive directors near nine years of service we have turned our attention toward succession planning. We have evaluated the balance of skills, experience, independence and knowledge on the Board, and the distinctive strengths each director brings to the Board. Tony Ball and Karen Richardson will step down from the Board at the end of the 2018 AGM. In order to replace the valuable skills and experience that Tony and Karen bring to the Board and to meet future requirements, we have discussed the skills we will look for in candidates, prepared briefs, and appointed MWM Consulting as external search consultants to assist with the search process. BT instructs MWM Consulting from time to time for search assignments, but they otherwise have no connection with BT Group.

We will consider potential candidates against the briefs. Members of the committee and Board will then meet with candidates, before we recommend appointments to the Board for approval. We will report fully on the steps taken after we conclude the process in next year's committee report.

#### Board diversity

We want a diverse workforce that matches our customers and delivers our business goals. As part of this, we consider the diversity of Board and committee members carefully to ensure we benefit from the range of experience, knowledge and understanding each member is able to contribute. We currently have three female Board members out of eleven, which represents 27% female representation. We continue to work towards achieving the Hampton-Alexander review target of at least 33% female Board representation by 2020, and the Parker review target of at least one director of colour by 2021. We challenge our external search consultants where necessary to ensure that diversity is always considered when drawing up candidate shortlists. When considering appointments to the Board, we are mindful of diversity and meritocracy.

You can read more about our approach to diversity, including our targets for senior female roles, on page 45.

### Governance structure and effectiveness

This year, we've reshaped our governance framework to establish clearer accountability and personal ownership for decisions across the business. To support this transition, we recommended a number of governance changes that the Board approved, including the replacement of the *Operating Committee* with the *Executive Committee* on 2 October 2017. We recommended an amended delegations policy that clearly sets out the authority delegated from the Board to the chief executive, and the principles our people must observe when delegating authority within the group and when exercising authority under BT's delegations of authority.

The role of the *Executive Committee* is to advise the chief executive and other members on the decisions for which they're individually accountable. Unlike the *Operating Committee*, the *Executive Committee* has no collective decision-making authority. We've made this change at the senior executive level to encourage and promote more efficient decision-making and clearer accountabilities across the business.

On our recommendation the Board has tasked the *Nominating & Governance Committee* as the forum that considers and agrees:

- appointments to and removals from the *Executive Committee*, and changes in other executive direct reports to the chief executive
- proposals to restructure the *Executive Committee*.

The committee retains its existing duties, including receiving reports and providing input on the chief executive's plans for executive succession and development.

During the year we recommended, and the Board approved:

- that the *BT Investment Board* replace the *Design Council*. This body provides recommendations and input to support the chief executive with his decision-making on investment proposals
- the creation of the *BT Compliance Committee* (BTCC) as a sub-committee of the *Audit & Risk Committee*. The role of the BTCC is to help ensure that BT delivers the goals of the DCR Settlement with Ofcom.

### Committee evaluation 2017/18

As part of the Board evaluation, we evaluated the committee's effectiveness, having regard to the findings of the external facilitator and the inputs of others. The committee concluded that it operates efficiently, and that the process to appoint the new BT Group chairman was professional, inclusive and transparent. Details of the appointment process can be found in our Annual Report & Form 20-F 2017.

This table summarises our key areas of focus and the progress we have made:

Key areas of focus	Actions
Succession planning – executive appointments	As detailed above, the committee plays a key role in agreeing new appointments and changes to the <i>Executive Committee</i> . The chief executive reports to the committee on plans for executive succession and development.
Succession planning – non-executive directors	We are developing a more systematic approach to succession planning. We keep under review the length of service of Board members, together with our Board skills matrix. We also proactively monitor the market for talented individuals who may bring relevant skills and experience to the Board.
Communications of our activities to all Board members	We recognise the importance of ensuring all Board members are aware of the committee's activities. The chairman reports back to the Board after each meeting.

### Board evaluation 2018/19

The company secretary will facilitate the 2018/19 Board and committee evaluation, which we'll carry out by electronic questionnaire. Each of the Board committees will complete separate, tailored evaluations. The chairman will conduct individual evaluations of each director to make sure they continue to contribute effectively and demonstrate commitment to the role. The senior independent director will lead the chairman's performance evaluation, taking into account the views of both non-executive and executive directors.

### Jan du Plessis

Chairman of the Nominating & Governance Committee  
9 May 2018

# BT Pensions Committee

## Chair's report



"We dealt with four significant issues this year – the 30 June 2017 funding valuation, a review of pension benefits for UK employees, the implications of the Digital Communications Review on the BT Pension Scheme (BTPS), and the changes to the administration of the BTPS."

### Our key responsibilities

BT's interactions with the BTPS Trustee, including:

- agreeing BT's payments to the BTPS and overseeing interactions with the Trustee on investment strategy
- monitoring and, where appropriate, mitigating the risks associated with the BTPS.

### Membership and attendance

As a result of the high workload concerning pensions during the year, the committee held a number of extra meetings.

Member	Meetings	
	Eligible to attend	Attended
Isabel Hudson (chair)	8	8
Sir Michael Rake <sup>a</sup>	4	3
Jan du Plessis <sup>b</sup>	4	4
Alison Wilcox	8	6
Simon Lowth	8	8

<sup>a</sup> Sir Michael Rake retired from the committee on 31 October 2017.

<sup>b</sup> Jan du Plessis was appointed to the committee on 1 November 2017, but joined two meetings as an attendee before he became a member.

I'd like to welcome Jan du Plessis who joined the committee during the year. I'd also like to thank Sir Mike Rake, who stepped down on 31 October 2017, for his contribution to the committee's work.

### Activities in 2017/18

#### Funding and 30 June 2017 funding valuation

During the year the BT team held constructive discussions with the Trustee on BT's future contributions to the BTPS. I'm pleased that this process was successfully concluded on 9 May 2018. You can read more about the outcome in note 20 to the consolidated financial statements.

#### Review of pension benefits

On 30 May 2017, BT announced a review of pension benefits in the BTPS and this review was subsequently extended to include the main defined contribution arrangement, the BT Retirement Savings Scheme (BTRSS). We spent a lot of time and carefully considered the proposals to close the BTPS to future benefits, bearing in mind that over 50% of UK eligible employees are now in the BTRSS and making sure that there is fairness for all. The aim was to help all current and future BT people to build up retirement benefits that are fair, flexible, and affordable to BT and the employee. BT communicated and consulted extensively with employees during the process and we gave careful consideration to appropriate education and advice for scheme members needing to make important decisions. The BT team worked closely with the recognised trade unions, both of which supported the planned changes in relation to the BTPS which are due to be implemented on 1 July 2018. You can find more about the review in note 20 to the consolidated financial statements.

#### Risk management and investment strategy

Over the course of the year, we received regular information and presentations from the BTPS management team on the investment performance and risk associated with the BTPS. The investment return for the year to 31 March 2018 was 2.4%. We also discussed temporary changes to asset strategy during the year with the Trustee in order to reduce investment volatility over the period.

#### Governance, legal and regulatory

As part of the DCR settlement, we considered the potential implications for the BTPS. We also dealt with a range of governance matters, including reviewing trustee appointments.

#### BTPS administration

During the year, the Trustee announced that it would be bringing the administration of the BTPS in-house. We monitored this process closely and received regular presentations from the BTPS executive team on progress. We also received updates on the Trustee's implementation of a new, improved administration platform designed to deliver a better service to members in future.

#### Further information

You can find out more about BT's pension schemes in note 20 to the consolidated financial statements.

#### Isabel Hudson

Chair of the BT Pensions Committee  
9 May 2018

# Committee for Sustainable and Responsible Business

## Chair's report



As the new chair, I'm delighted to welcome Jan as a member of the CSRB and I would like to particularly thank Sir Mike Rake for his years of commitment leading this committee. Over the year, we've also said goodbye to Margaret and Niall, and I thank them both for their valued contributions.

### Activities in 2017/18

#### Purposeful business strategy

The committee reviewed management recommendations on all areas of the purposeful business strategy for BT globally, and provided guidance and direction on the main priorities.

#### 2020 ambitions

We assessed progress towards each of our 2020 ambitions. Find out more in our Delivering Our Purpose Report 2017/18.

#### Investment in society

We agreed to make an investment in society of £35.9m, made up of a mix of cash, time volunteered by BT people, and in-kind contributions.

#### Tech literacy and social inclusion

We assessed progress with the Tech Literacy programme, which aims to reach 5 million children by 2020. The committee approved the strategy for the year ahead, which aims to develop a culture of tech literacy in the UK. Regarding progress towards our goal to help 10 million people overcome social disadvantage, the committee noted that we've now reached 4.6 million people since announcing this initiative in 2015.

#### Environment

The committee approved a new science-based target to reduce our carbon emissions intensity by 87% by 2030 (compared with 2016/17 levels). Find out more information on page 54.

#### Volunteering and good causes

The committee assessed the progress on our ambition to inspire two thirds of our people to volunteer by 2020. Participation increased throughout the year, enabled by programmes such as tech literacy and charity partner campaigns. The committee spent time discussing our new charity and community approach and our ambition to generate £1bn for good causes by 2020, as well as providing guidance on how to link this to employee engagement activities.

#### Field trip 2018

This year, the committee visited the East of England region to hear first hand how BT's purpose is brought to life locally. This included visiting a school to see our Tech Literacy programme in action.

#### Jasmine Whitbread

Chair of the Committee for Sustainable and Responsible Business  
9 May 2018

"BT's purpose is to use the power of communications to make a better world. This is at the heart of everything we do, and inspires our customers, partners and employees to make a lasting, positive impact on society and the environment."

### Our key responsibilities

- Provide strategic direction on how to bring BT's purpose to life
- Assess progress on delivering positive societal and environmental impacts while delivering sustainable revenue growth
- Evaluate progress on BT's 2020 ambitions and provide guidance to management on plans and areas of risk and opportunity.

### Membership and attendance

Member	Meetings	
	Eligible to attend	Attended
Jasmine Whitbread (chair) <sup>a,h</sup>	2	2
Sir Michael Rake <sup>b</sup>	1	1
Jan du Plessis <sup>c</sup>	1	1
Niall Dunne <sup>d,e</sup>	1	1
Phil Hodgkinson <sup>f</sup>	2	2
Baroness Margaret Jay <sup>f,g</sup>	0	0
Lisa MacCallum <sup>f</sup>	2	2
Gavin Patterson <sup>e</sup>	2	2
Gunhild Stordalen <sup>f</sup>	2	2
Alison Wilcox <sup>e</sup>	2	1

<sup>a</sup> Jasmine Whitbread was appointed chair on 1 November 2017.

<sup>b</sup> Sir Michael Rake stepped down as chair of the CSRB on 31 October 2017.

<sup>c</sup> Jan du Plessis became a member of the CSRB on 1 November 2017.

<sup>d</sup> Niall Dunne stepped down from the CSRB on 1 November 2017. The interim chief sustainability officer attended the meeting in December.

<sup>e</sup> BT employee.

<sup>f</sup> Independent member.

<sup>g</sup> Baroness Margaret Jay stepped down from the CSRB on 14 April 2017.

<sup>h</sup> Non-executive director.

# Investigatory Powers Governance Committee

## Chairman's report



“BT supports the government’s important role in protecting society from crime and terrorism. To protect legal privacy rights, the committee makes sure all requests we receive to obtain, retain or disclose information to public bodies are lawfully made.”

### Our key responsibilities

- Assessing and responding to all investigatory powers requests made to BT in the UK and overseas, for example under the Investigatory Powers Act 2016
- Overseeing all operational activities undertaken by BT in relation to any such requests
- Ownership of policies regarding BT’s response to such requests
- Ownership of key stakeholder relationships, for example with government, the Investigatory Powers Commissioner and the intelligence agencies.

### Membership and attendance

Member	Meetings	
	Eligible to attend	Attended
Jan du Plessis (chairman) <sup>a</sup>	2	2
Sir Michael Rake <sup>b</sup>	3	3
Gavin Patterson	4	4
Senior executive, BT	4	4
Senior executive, BT	4	4
Legal adviser	4	4
External member	4	4

<sup>a</sup> Jan du Plessis joined the committee as a member on 1 June 2017, and has chaired it since 1 November 2017.

<sup>b</sup> Sir Michael Rake chaired the committee until he stepped down on 31 October 2017.

Certain committee members remain unnamed as it is BT’s policy to protect our people who work on security-cleared matters.

### Activities in 2017/18

#### Review of operational activities

We reviewed previous and current operational activities relating to requests BT has received to assist public authorities in relation to exercising investigatory power.

#### Review of governance

In December 2016, the committee was formally established as a committee of the Board. This year, we adopted new Terms of Reference setting out the governance arrangements for the committee.

#### Update on legal developments

We considered updates on UK and EU legal challenges to the UK’s investigatory powers regime, for example the Watson/Tele2 decisions in the European Court of Justice and the UK Court of Appeal, and the Privacy International Investigatory Tribunal case. We formed our own internal legal view of these developments and obtained expert external legal opinions where necessary.

#### Security update

We received regular updates on BT’s security practices and policies, including the security of our assets, estate, products and services, as well as cyber incidents and other security issues. We shared information on cyber risks with government as part of our work to protect society from cyber crime.

#### Jan du Plessis

Chairman of the Investigatory Powers Governance Committee  
9 May 2018

# Technology Committee

## Chairman's report



“This year we’ve launched exciting new ultrafast broadband technology and laid the groundwork to launch 5G. I believe these will play an important role in boosting the UK’s digital economy and enable our customers to do more than ever before.”

### Our key responsibilities

- Agree the development and implementation of BT’s major technology innovation strategies
- Review BT’s technology risk exposure and how management monitors and controls such exposures.

### Membership and attendance

Member	Meetings	
	Eligible to attend	Attended
Gavin Patterson (chairman)	3	3
Tony Ball	3	3
Iain Conn	3	3
Mike Inglis	3	3
Karen Richardson	3	3
Howard Watson <sup>a</sup>	3	3

<sup>a</sup> BT employee.

The company secretary also attends our meetings.

### Activities in 2017/18

#### Technology strategy

##### All IP

We reviewed our transformation plans to migrate all customers from the ageing PSTN network to All IP based voice networks and services. Moving towards an All IP future for voice services means we’ll create a more flexible way for consumers and businesses to communicate, unlock the potential for converged services, and create network efficiencies.

##### 5G

We’ve continued to monitor and discuss our 5G launch plan in the UK, including identifying key dependencies and risks for delivery. BT has worked closely with industry bodies on the development of the 5G standard, and we’re on track to deliver our launch plan.

#### Technology trends and innovation

We considered emerging technology trends to ensure we’re at the forefront of technological change. Members of BT’s innovation team join our meetings on a regular basis to present new technologies and innovations that could help us improve our network access, security, performance and efficiency, create new ways of working, and identify opportunities for new services and products. An area we have followed with interest is Artificial Intelligence and Machine Learning. This will help us leverage the power of analytics and automation to enhance BT’s protection against emerging threats, and augment business efficiencies.

#### Technology risk

##### Cyber Security

We continued to monitor the evolving threat of cyber attacks in order to protect our systems, people and customers. We are progressing well with our security programmes. These include proactive monitoring of our systems and networks, providing ongoing assurance that our IT controls are robust, and running awareness campaigns so our people can take steps to protect themselves and others against cyber threats.

#### Technology investment

We reviewed the trends, drivers and forecasts for technology-related capital expenditure, as well as investigating ways to reduce costs and run our networks more efficiently.

#### Gavin Patterson

Chairman of the Technology Committee

9 May 2018



# Report on directors' remuneration

## Chairman's report



“My report this year sets out how we have implemented our Remuneration Policy, a framework which is intended to appropriately incentivise our high-calibre executive team to drive company success and deliver shareholder value.”

### Our key responsibilities

- Determine the salary and benefits for both executive directors and monitor the relationship between pay and benefits of other employees
- Operation of the annual bonus scheme, including setting performance targets and objectives for the year ahead
- Determine awards under the annual bonus scheme for both executive directors and review the awards of other senior executives
- Governance of the long-term incentive plans, including target setting
- Review and approve the Annual Remuneration Report for inclusion in the Annual Report & Form 20-F
- Review, approve and ensure operation within the Remuneration Policy including seeking shareholder approval, on a binding basis, at least every three years.

### Membership and attendance

Member	Meetings	
	Eligible to attend	Attended
Tony Ball (chairman)	8	8
Isabel Hudson	8	6
Mike Inglis	8	6
Karen Richardson	8	6
Nick Rose	8	8

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, and the HR director, reward, pensions and employee relations.

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

### The contents of this report are as follows:

#### Chairman's letter

Review of the year; committee decisions; key outturns and plans for the year ahead

#### Focus on remuneration

The key aspects of our remuneration structure, risk accountability, how we have performed, how we applied the Remuneration Policy during 2017/18 and application in 2018/19

#### Annual Remuneration Report

More detail on how we have applied our Remuneration Policy during 2017/18 including the single figure of remuneration for each director

How we intend to apply the Remuneration Policy in 2018/19

#### Remuneration Policy

We set out our Remuneration Policy, as approved by shareholders at our 2017 AGM

### Review of the year

This has been a challenging year for the company but some good progress has been made in key areas of the business.

The committee has continued to make sure that its approach to remuneration provides a competitive pay package and one that aims to align management's interests with those of shareholders.

At the 2017 AGM shareholders endorsed our approach to remuneration with over 96% of votes cast in favour of both the Annual Remuneration Report 2016/17 and the Remuneration Policy.

### Business performance

The business has continued to work towards delivering on its strategic plans and to this end has made important investments for the future. Although the market environment has become more challenging during the past year BT remains well positioned in its markets and has met the challenges and taken opportunities in a disciplined way.

### Outcomes for the year

**Application of malus:** As reported in 2017, following our investigations into accounting irregularities in our Italian business and publication of revised results for 2014/15 and 2015/16, the committee exercised its discretion to apply the malus provisions in the Deferred Bonus Plan to reduce the number of shares under award for certain participants. This was actioned in May 2017 and further detail is shown on page 166.

In addition, following further consideration regarding the impact of the accounting irregularities in our Italian business, the sanctions arising from Ofcom's findings regarding the application of Deemed Consent in the Openreach business and the fact that both of these issues involved the finance function, the committee has decided to exercise its discretion to apply the malus provisions in respect of the remaining Deferred Bonus Plan awards of the former group finance director, Tony Chanmugam, given his role as head of the finance function, to reduce those awards to zero. In doing so the committee accepted that Tony Chanmugam was not personally implicated in or culpable for either issue.

**2017/18 bonus:** The annual bonus is based on performance against key financial and non-financial metrics, and personal objectives. Key measures under the financial and non-financial elements include profit, cash flow, revenue, and customer experience. Overall, the formulaic results against the targets set under these measures produced an above-target outcome, as set out on page 162. In particular, this reflected outperformance against the cash flow and customer experience measures. In reviewing whether this level of payout was appropriate, the committee welcomed and agreed the chief executive's proposal to cap the outcome of the financial and non-financial measures at target, taking into account the underlying financial and operating performance of the business during the year. The committee also reviewed the personal performance of both executive directors against their key objectives for the year.

Overall, this resulted in an annual bonus of 54% of maximum for the chief executive and 72% of maximum for the chief financial officer.

**2015–2018 ISP vesting:** The group returned below-threshold performance against all of the performance measures for the 2015 ISP. This resulted in the award lapsing in full. More information on the 2015 ISP is on page 163.

### Looking ahead

**Base salary review:** The committee considered the base salaries of the executive directors in the context of the UK employee population. BT has agreed a 3.1% annualised pay settlement for team members in the UK in 2018, and a 2.5% pay review budget for increases for the UK managerial and professional team in 2018.

We reviewed the performance of the executive directors and, in line with the increases agreed for our managerial employees, we agreed 2.5% salary increases for both the chief executive and the chief financial officer, to take effect from June 2018.

The committee proposes no changes to how benefits and pension will be operated for the executive directors, and no changes to the structure of the annual bonus, which will have the same opportunity and weightings as for 2017.

We reviewed the level of ISP award for the executive directors. In the case of the chief executive the committee carefully considered reverting to an award of 400% of salary however, in light of the share price fall in the year, we decided that an award of 350% of salary was fair. It is the committee's intention to revert to an award of 400% of salary next year assuming overall performance supports that move. An ISP award of 350% of salary will also be made to the chief financial officer.

Finally, as I step down as a director of BT and after almost nine years as a member of the committee, half of which as chairman, I would like to take this opportunity to thank our shareholders for their support and guidance as we have strived to develop and deliver best practice in remuneration matters at BT.

### Tony Ball

Chairman of the Remuneration Committee  
9 May 2018

# Focus on remuneration

## How we align our remuneration policy with shareholders' interests and risk management

### Base salary and core benefits

#### Alignment with shareholders' interests

- Forms a key part of the remuneration framework required to attract, retain and motivate the calibre of executives needed to shape and execute our strategy and generate shareholder value.

#### Application in 2017/18

- No change to base salaries for Gavin Patterson (£996,825) and Simon Lowth (£700,000)
- Both executive directors received a cash pensions allowance of 30% of salary
- 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.

#### Risk accountability

- Loss of existing talent and an inability to recruit new talent would represent a risk to the business
- Mitigated by setting salary and benefits at a level that is competitive against relevant businesses and recognises breadth of the role and individual experience.

#### Application for 2018/19

- An increase of 2.5% for both executive directors to be applied in June 2018
- The new base salary for Gavin Patterson will be £1,022,000 and for Simon Lowth £717,500
- There are no changes being proposed to the benefit framework or pension arrangements for 2018/19.

### Annual bonus

#### Alignment with shareholders' interests

- Financial and personal objectives are set with reference to our business strategy approved by the Board
- They capture KPIs for the business, including:
  - EPS, free cash flow and revenue (excluding transit)
  - Delivering great customer service
  - Personal objectives linked to key operational and strategic projects
- Deferral of one third of the bonus for three years provides retention and alignment over the longer term.

#### Application in 2017/18

- The maximum level of bonus opportunity was 240% for the chief executive, and 180% for the chief financial officer
- The committee welcomed and agreed the chief executive's proposal to cap the overall outcome of the key financial and customer experience measures at target. Coupled with performance against personal objectives, this resulted in an annual bonus of 54% of maximum for the chief executive and 72% of maximum for the chief financial officer.

#### Risk accountability

- The Board seeks to ensure that the budget balances achievable goals without encouraging undue risk. Incentive targets are then linked to the budget
- The financial metrics reflect how well management mitigates our principal business risks
- The committee retains absolute discretion to reduce variable compensation in light of risk and the group's overall performance
- Bonus deferral encourages a focus on long-term outcomes
- Malus and clawback provisions are in place.

#### Application for 2018/19

- No changes are being proposed to either the maximum bonus opportunities or the overall structure of the plan.

### Incentive Share Plan (ISP)

#### Alignment with shareholders' interests

- Based on performance against three measures critical to BT's long-term success
- Total shareholder return (TSR) metric provides a direct measure of our relative performance against peers.

#### Application in 2017/18

- Chief executive: received an award of 350% of salary (reduced from 400% as a result of the share price fall over the previous year)
- Chief financial officer: received an award of 350% of salary.

#### Risk accountability

- Metrics balance financial performance (cash flow and revenue (excluding transit)) with total return, producing a rounded view of performance and effective risk management over the longer term
- Two year holding period ensures individuals retain exposure to the share price for at least five years in total.

#### Application for 2018/19

- Chief executive: the same approach will be applied as taken in 2017/18 and the chief executive will receive an award of 350% of salary
- Chief financial officer: will receive an award of 350% of salary
- Following committee review, a revised TSR comparator group will be used for the 2018 ISP awards.

### Shareholding guidelines

#### Alignment with shareholders' interests

- Shareholding guidelines ensure appropriate alignment between executives and investors
- Current shareholding levels are set out on page 165.

#### Application in 2017/18

- Chief executive: equivalent to 300% of salary
- Chief financial officer: equivalent to 250% of salary.

#### Risk accountability

- Encourages executives to build and hold a material, personal stake in the business
- Ensures that they have significant equity at stake in the event of adverse risk-related events.

#### Application for 2018/19

- No changes are being proposed.

# Focus on remuneration

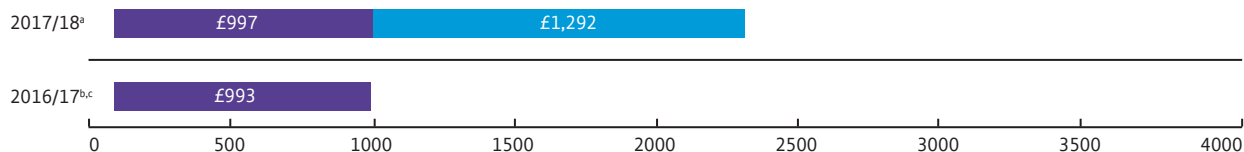
The Remuneration Report is colour-coded as follows:

- Base salary
- Annual bonus  
Annual bonus,  
deferred bonus
- Incentive Share Plan (ISP)

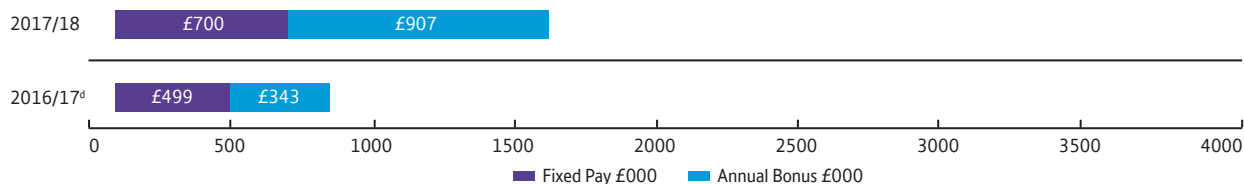
## Pay breakdown

The pay breakdown for the executive directors in 2016/17 and 2017/18 is set out below.

### Gavin Patterson, Chief executive



### Simon Lowth, Chief financial officer



<sup>a</sup> The group returned below-threshold performance against all of the performance measures for the 2015 ISP. This resulted in the award lapsing in full.  
<sup>b</sup> No bonus was awarded to the chief executive in 2017.  
<sup>c</sup> The group returned below-threshold performance against all of the performance measures for the 2014 ISP. This resulted in the award lapsing in full.  
<sup>d</sup> Simon Lowth was appointed to the Board on 12 July 2016. His first ISP award was made in 2016.

## Annual bonus for 2017/18

The resulting bonus outcomes as a percentage of base salary were:

### Chief executive



### Chief financial officer



## Vesting of 2015 ISP award

The ISP is a conditional share award with three performance conditions measured over a three-year performance period. As disclosed in the 2016 Directors' Remuneration Report, upon completion of the EE acquisition in January 2016, the free cash flow and revenue measures were adjusted to reflect the enlarged group. The group returned below-threshold performance against all of the performance measures for the 2015 ISP. This resulted in the award lapsing in full.

40% Total shareholder return		40% Normalised free cash flow		20% Underlying revenue growth (excluding transit)	
Performance	Outcome	Performance	Outcome	Performance	Outcome
Threshold target 12 <sup>th</sup>	20 <sup>th</sup> = target not met	Threshold target £10.25bn	£8.58bn = target not met	Threshold target 5.79%	0.72% = target not met

# 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 management's 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
- 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
- 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
- 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*
- 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
- 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 section summarises all elements of the directors' remuneration in 2017/18.

## Single total figure of remuneration (audited)

The following sets out all emoluments received by directors for the financial years 2017/18 and 2016/17, including bonus and deferred bonus, long-term incentive plans and pension arrangements.

	Basic salary and fees (2017/18) £000	Basic salary and fees (2016/17) £000	Benefits excluding pension (2017/18) £000	Benefits excluding pension (2016/17) £000	Annual Bonus <sup>a</sup> (2017/18) £000	Annual Bonus <sup>a</sup> (2016/17) £000	ISP <sup>b</sup> (2017/18) £000	ISP <sup>c</sup> (2016/17) £000	Malus <sup>d</sup> (2017/18)	Pension (2017/18) £000	Pension <sup>e</sup> (2016/17) £000	Total 2017/18 £000	Total 2016/17 £000
<b>Chairman</b>													
Jan du Plessis <sup>f</sup>	322	–	43	–	–	–	–	–	(338)	299	298	365	–
<b>Executive Directors</b>													
Gavin Patterson	997	993	57	54	1,292	–	–	–	(338)	299	298	2,307	1,345
Simon Lowth <sup>g</sup>	700	499	23	17	907	343	–	–	–	210	151	1,840	1,010
<b>Non-executive directors</b>													
Tony Ball	138	124	2	–	–	–	–	–	–	–	–	140	124
Iain Conn	122	121	–	–	–	–	–	–	–	–	–	122	121
Tim Höttges <sup>h</sup>	–	–	–	–	–	–	–	–	–	–	–	0	0
Isabel Hudson <sup>i</sup>	188	179	1	1	–	–	–	–	–	–	–	189	180
Mike Inglis <sup>i</sup>	105	86	2	1	–	–	–	–	–	–	–	107	87
Karen Richardson <sup>ij</sup>	127	126	31	18	–	–	–	–	–	–	–	158	144
Nick Rose <sup>i</sup>	173	159	2	2	–	–	–	–	–	–	–	175	161
Jasmine Whitbread	107	102	–	–	–	–	–	–	–	–	–	107	102
<b>Sub-total</b>	<b>2,979</b>	<b>2,389</b>	<b>161</b>	<b>93</b>	<b>2,199</b>	<b>343</b>	<b>–</b>	<b>–</b>	<b>(338)</b>	<b>509</b>	<b>449</b>	<b>5,510</b>	<b>3,274</b>
<b>Former director</b>													
Sir Michael Rake <sup>k</sup>	394	675	20	35	–	–	–	–	–	–	–	413	710
<b>Total</b>	<b>3,373</b>	<b>3,064</b>	<b>181</b>	<b>128</b>	<b>2,199</b>	<b>343</b>	<b>–</b>	<b>–</b>	<b>(338)</b>	<b>509</b>	<b>449</b>	<b>5,923</b>	<b>3,984</b>

<sup>a</sup> Annual bonus shown includes both the cash and deferred share element. The deferred element of the 2017/18 bonus includes the value of deferred shares to be granted in June 2018.

Further details of the deferred element are set out below.

<sup>b</sup> The ISP 2015 granted in June 2015 will lapse in full in May 2018. Further details are provided on page 163.

<sup>c</sup> The ISP 2014 granted in June 2014 lapsed in full in May 2017.

<sup>d</sup> As a result of investigations into improper accounting practices in BT's Italian business, the committee exercised its discretion and applied the malus provisions under the Deferred Bonus Plan. This was applied in May 2017 and the figure was calculated based on the share price at the time of the original grant. Further details are provided on page 166.

<sup>e</sup> Pension allowance paid in cash for the financial year net of pensions contributions – see 'Total pension entitlements' on page 163.

<sup>f</sup> Jan du Plessis joined the Board on 1 June 2017 and became chairman on 1 November 2017.

<sup>g</sup> Simon Lowth was appointed as a director on 12 July 2016.

<sup>h</sup> Under the terms of the Relationship Agreement between BT and Deutsche Telekom and Tim Höttges's letter of appointment, no remuneration is payable for this position.

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

<sup>j</sup> Includes an additional fee for regular inter-continental travel to Board and Board Committee meetings.

<sup>k</sup> Sir Michael Rake retired as a director on 31 October 2017 and the remuneration he received in performing that role is set out in the table above. No termination payment was made. Sir Michael Rake will provide advisory services on specific matters to the company from November 2017 until June 2018.

### Additional disclosures relating to the single figure table (audited)

#### Salaries

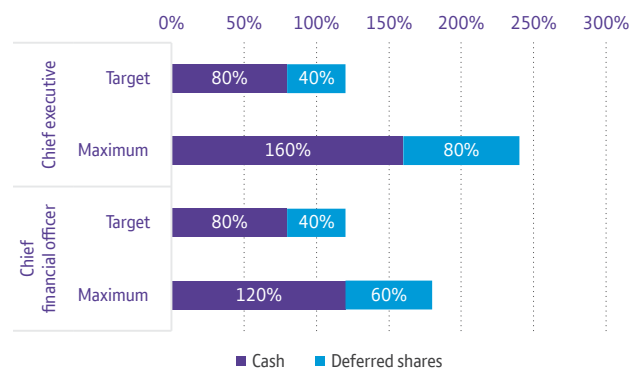
Executive directors' salaries are reviewed annually, with increases typically effective from 1 June. We reviewed the salaries for Gavin Patterson and Simon Lowth during the year and agreed that they should remain unchanged at £996,825 and £700,000 respectively. The annualised pay settlement for our team members in the UK in 2017/18 was 2.1%.

#### Benefits

Benefits provided to the 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 (executive directors only), professional subscriptions, personal tax advice and financial counselling.

#### Annual bonus

The annual bonus opportunities (expressed as a percentage of salary) for the executive directors in 2017/18 were as follows:

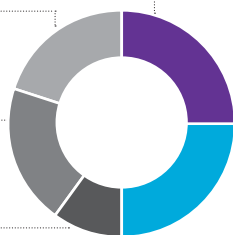


We set out below the weighting of the annual bonus structure for the executive directors in 2017/18.

#### Chief executive and chief financial officer

% Weighting

- 25% Adjusted earnings per share
- 20% Personal objectives
- 20% Customer experience
- 10% Revenue (excluding transit)
- 25% Normalised free cash flow



The annual bonus is based on performance against key financial and non-financial metrics, and personal objectives. Key measures under the financial and non-financial elements include profit, cash flow, revenue (excluding transit) and customer experience.

As set out in the table below, overall the formulaic results against the targets set under these measures produced an above-target outcome. In particular, this reflected outperformance against the cash flow and customer experience measures. In reviewing whether this level of payout was appropriate, the committee welcomed and agreed the chief executive's proposal to cap the combined outcome of the financial and customer experience measures at target, taking into account the underlying financial and operating performance of the business during the year.

Measure	Threshold	Target	Maximum	Actual	Outcome
Adjusted EPS (p) <sup>a</sup>	26.5	27.9	30	27.9	Target
Normalised free cash flow (£m) <sup>b</sup>	2,621	2,759	2,966	2,973	Maximum
Revenue (excluding transit) (£m) <sup>c</sup>	23,689	23,928	24,287	23,487	Below threshold
Customer experience	50	100	200	176.66	Between target and maximum

<sup>a</sup> Adjusted EPS is defined on page 25.  
<sup>b</sup> Normalised free cash flow is defined on page 25.  
<sup>c</sup> Revenue (excluding transit) is defined on page 24.

The chairman assessed the chief executive, and the chief executive assessed the chief financial officer on personal contribution targets and performance against personal objectives. These assessments were based on a number of factors including BT's regular employee surveys and performance against personal objectives set at the start of the year.

The chief executive achieved 70% of maximum for his personal contribution score. The personal contribution score reflected the progress on developing BT's strategic transformation programme which will underpin the future business performance, including the completion of the important milestones in the governance review following the learnings from the Italy and Deemed Consent issues from the prior year and leading the significant refresh of BT's executive team during the year.

The chief financial officer achieved 90% of maximum for his personal contribution score. This reflects his exceptional contribution this year in leading BT's pension review and driving our transformation agenda in BT including the Board strategy, as well as his substantial progress on transforming the structure, capability and culture within the finance function.

For both executive directors, one-third of any bonus paid is deferred into shares for three years with the remaining two-thirds paid in cash. Deferred shares are not subject to performance conditions.

The chief executive's bonus, paid both in cash and deferred shares, represented 130% of salary (2016/17: 0%) and 54% of the maximum bonus opportunity (2016/17: 0%).

The chief financial officer's bonus, paid both in cash and deferred shares represented 130% of salary (2016/17: 68.8% (pro-rated to reflect the period he was in full-time employment during the year)) and 72% of the maximum bonus opportunity (2016/17: 38.2% pro-rated to reflect the period he was in full-time employment during the year).

The deferred shares will be granted in June 2018.

### Total bonus

Name	% of bonus due to business score	% of bonus due to personal score
Chief executive	74%	26%
Chief financial officer	69%	31%

### Incentive share plan 2015 (audited)

The ISP is a conditional share award. The committee assesses the performance conditions to 31 March 2018 and the awards would ordinarily vest in May 2018. 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. As disclosed in the 2016 Directors' Remuneration Report, after completion of the EE acquisition in January 2016, the free cash flow and revenue measures were adjusted to reflect the enlarged group.

As set out in the table below, the threshold performance target in respect of each measure was not met and therefore the awards will lapse in full in May 2018.

40% Total shareholder return		40% Normalised free cash flow		20% Underlying revenue growth (excluding transit)	
Performance	Outcome	Performance	Outcome	Performance	Outcome
Threshold target 12th	20th = target not met	Threshold target	£8.58bn = target not met	Threshold target	0.72% = target not met
		£10.25bn		5.79%	

### Total pension entitlements (audited)

We closed the BT Pension Scheme (BTPS) to new entrants on 31 March 2001. None of the executive directors participate in future service accrual in the BTPS.

New UK employees are eligible to join a defined contribution scheme, typically a personal pension plan. For executive directors, the company agrees to pay a fixed percentage of the executive's salary each year which can be put towards the provision of retirement benefits.

Gavin Patterson receives an annual allowance equal to 30% of salary in lieu of pension provision as set out in the table on page 161. Gavin has previously been a member of the BTRSS but neither he nor the company has made any contribution to the scheme during 2017/18. BT also provides death in service cover consisting of a lump sum equal to four times his salary plus a dependant's pension equal to 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 161. Simon has not previously been a member of any of the company pension schemes. BT also provides death in service cover consisting of a lump sum equal to four times his salary plus a dependant's pension equal to 30% of his capped salary.

Jan du Plessis is not a member of any of the company pension schemes. The company has made no payments towards his retirement provision and provided no life cover benefit.



## Awards granted during the year (audited)

### 2017 ISP awards

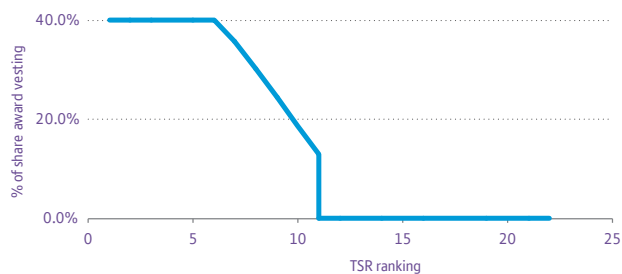
The 2017 ISP awards were made in June 2017 as set out below and on page 167. As agreed by the committee in 2017, as a result of the fall in BT's share price over the previous year, the committee reduced the award to Gavin Patterson from 400% of salary to 350% of salary. The award for Simon Lowth was 350% of salary.

Director	Date of award	ISP award (shares)	Face value of award <sup>a</sup>
Gavin Patterson	22 June 2017	1,218,186	£3,488,884
Simon Lowth	22 June 2017	855,446	£2,449,997

<sup>a</sup> Face value based on share price at the date of grant of 286.40p. The grant price is calculated using the average middle-market price of a BT share for the three days prior to grant.

The ISP is a conditional share award. Performance conditions attached to the awards 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 2017 to 31 March 2020. The performance conditions are the same for both directors. The table below sets out the target ranges for TSR, the normalised free cash flow and underlying revenue growth excluding transit for the three-year performance period 2017/18 to 2019/20.

### TSR vesting schedule 2017 awards



The TSR comparator group is unchanged from the 2016 awards.

### Financial targets

Measure 2017/18–2019/20	Threshold	Level of vesting	Maximum	Level of vesting <sup>a</sup>
Normalised free cash flow	£7.92bn	25%	£8.92bn	100%
Underlying revenue growth (excluding transit)	1.8%	25%	4.0%	100%

<sup>a</sup> Vesting levels between threshold and maximum will be on a straight line basis.

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.

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

The awards are subject to a further holding period of two years, commencing from the end of the performance period and applied to the net number of shares received after tax and other statutory deductions. During the holding period, no further performance measures will apply.

### 2017 deferred shares (DBP)

We awarded a proportion of the 2016/17 annual bonus in deferred shares. The table below provides further details.

As disclosed in the 2017 Directors' Remuneration Report, despite some of the bonus performance targets being met, the committee exercised discretion and determined that no bonus would be awarded to the chief executive and he therefore received no deferred share awards.

Director	Date of award	DBP award (shares)	Face value of award <sup>a</sup>
Gavin Patterson	N/A	N/A	N/A
Simon Lowth	22 June 2017	42,014	£ 120,328

<sup>a</sup> Face value based on share price at grant of 286.40p. The grant price is calculated using the average middle-market price of a BT share for the three days prior to grant.

The DBP is a conditional share award. Deferred shares are not subject to performance conditions and will vest in three years subject only to continued employment. Details of all interests in deferred shares are set out on page 166.

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

### Former directors (audited)

Tony Chanmugam started drawing his retirement benefits on 6 April 2017. During 2017/18 Tony received a total of £574,929 from the BT Pension Scheme. This consisted of a pension commencement lump sum payment of £375,000 and monthly pension payments totalling £199,929. In addition, all benefits were commuted under the pre-existing unfunded pension arrangement from BT, and Tony received a one-off taxable lump sum of £1,610,411.

Phil Hodgkinson 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)

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

### Directors' share ownership (audited)

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

To this end, the chief executive is required to build up a shareholding equal to 300% of salary, and the chief financial officer 250% of salary. The aim is to encourage the build up of a meaningful shareholding in the company over time by retaining shares received under an executive share plan (other than shares sold to meet tax and other statutory deductions) or from purchases in the market.

We use the average BT share price over the preceding 12 months (or the share price at acquisition date if higher) to determine whether the minimum shareholding requirement has been reached.

The table below sets out the shareholding requirement position as at 31 March 2018. As a relatively new director, Simon has not yet received any vested shares under the executive share plans and did not receive a buyout on appointment. Simon's current shareholding is as a result of personal purchases in the market.

Executive director	Personal shareholding as a percentage of salary
Gavin Patterson	939%
Simon Lowth	4%

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 the three-year period. Full details of all ISP and DBP awards, including performance periods and vesting conditions, are set out on pages 166 to 167.

#### Unvested interests in shares (audited)

	ISP (subject to performance)		DBP (not subject to performance)	
	1 April 2017	31 March 2018	1 April 2017	31 March 2018
Gavin Patterson	3,046,654	3,354,841	334,944	127,638
Simon Lowth <sup>a</sup>	628,928	1,568,600	N/A	44,397

<sup>a</sup> Simon Lowth joined the Board in July 2016 and was granted his first DBP award in June 2017.

During the period 1 April 2018 to 9 May 2018, there were no movements in unvested interests in shares.

The table below shows share options held by the directors under the company's all-employee saveshare plans as at 31 March 2018. None of the directors held share options with performance conditions.

#### Share options held without performance conditions – saveshare (audited)

	Share options at 1 April 2017	Options granted during year	Options exercised during year	Value at date of exercise (£)	31 March 2018
Gavin Patterson	5,642	–	–	–	5,642
<b>Former director</b>					
Sir Michael Rake <sup>a</sup>	5,172	–	–	–	5,172

<sup>a</sup> Sir Michael Rake retired as a director on 31 October 2017 and the number reflects his options at that date.

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

#### Directors' interests at 31 March 2018 or date of retirement, if earlier (audited)

The following table shows 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 2018 and 1 April 2017, or at date of appointment if later.

Beneficial holdings	Number of shares	
	31 March 2018	1 April 2017
Jan du Plessis <sup>a</sup>	400,000	N/A
Gavin Patterson <sup>b</sup>	2,943,453	2,871,032
Simon Lowth	10,536	–
Sir Michael Rake <sup>b c</sup>	166,061	148,721
Tony Ball	193,871	93,871
Iain Conn	19,442	19,442
Tim Höttges	–	–
Isabel Hudson	15,090	8,424
Mike Inglis	4,599	2,600
Karen Richardson <sup>d</sup>	13,525	13,525
Nick Rose	300,000	125,000
Jasmine Whitbread	11,289	7,990
<b>Total</b>	<b>4,077,866</b>	<b>3,290,605</b>

<sup>a</sup> Jan du Plessis joined the Board on 1 June 2017 and became chairman on 1 November 2017.

<sup>b</sup> Includes shares purchased under directshare and free shares awarded under UK allshare.

Directshare is an 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).

<sup>c</sup> Sir Michael Rake retired as a director on 31 October 2017 and the number reflects his holding at that date.

<sup>d</sup> Shares are held as 2,705 American Depositary Shares (ADS). One ADS equates to five BT ordinary shares.

During the period 1 April 2018 to 9 May 2018, 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 helps avoid any conflict of interest in relation to Tim's ongoing employment as CEO of Deutsche Telekom.

### Deferred bonus plan awards at 31 March 2018 (audited)

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.

Tony Chanmugam retired from the Board on 13 July 2016. All payments made to Tony in respect of 2015/16 were reported in the 2016 Directors' Remuneration Report. The committee considered the treatment of Tony's outstanding share awards under the DBP. Given that his departure was by mutual agreement with the company and an orderly transition was put in place, he was considered a good leaver for the purposes of the DBP. Subject to the application of malus as described in footnote b below, his unvested DBP awards were preserved until their normal vesting date. Following further committee discussion and consideration, the committee exercised its discretion and applied the malus provisions under the DBP to reduce the number of shares under Tony's outstanding DBP awards to zero. This will be applied in 2018/19.

	1 April 2017	Awarded <sup>a</sup>	Dividends re-invested	Vested	Lapsed <sup>b</sup>	Total number of award shares 31 March 2018	Vesting date	Price at grant	Market price at vesting	Monetary value of vested award £000
<b>Gavin Patterson</b>										
DBP 2014	138,952	–	–	131,709	(7,243)	–	01/08/2017	384.20p	312.5p	412
DBP 2015	105,028	–	5,059	–	(15,867)	94,220	01/08/2018	449.50p	–	–
DBP 2016	90,964	–	1,793	–	(59,339)	33,418	01/08/2019	403.18p	–	–
DBP 2017 <sup>c</sup>	–	–	–	–	–	–	–	–	–	–
<b>Simon Lowth<sup>d</sup></b>										
DBP 2017	–	42,014	2,383	–	–	44,397	01/08/2020	286.40p	–	–
<b>Former director</b>										
<b>Tony Chanmugam</b>										
DBP 2014	147,828	–	8,196	–	(3,367)	152,657	01/08/2017	384.20p	–	–
DBP 2015	56,739	–	2,696	–	(9,214)	50,221	01/08/2018	449.50p	–	–
DBP 2016	50,537	–	909	–	(34,490)	16,956	01/08/2019	403.18p	–	–

<sup>a</sup> Awards granted on 22 June 2017. 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 2018 will be calculated using the average middle market price of a BT share for the three days prior to grant.

<sup>b</sup> As a result of investigations into improper accounting practices in BT's Italian business, as reported in 2017, the committee exercised discretion and applied the malus provisions in the Deferred Bonus Plan to reduce the number of shares under award. The application of the malus provisions was calculated based on the share price at the original grant.

<sup>c</sup> The committee exercised its discretion and determined that no bonus would be awarded to Gavin Patterson in respect of 2016/17. This resulted in no 2017 DBP award being made.

<sup>d</sup> Simon Lowth joined the Board in July 2016 and was granted his first DBP award in June 2017.

## Share awards under long-term incentive schemes held at 31 March 2018 (audited)

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

	1 April 2017	Awarded	Dividends re-invested	Vested	Lapsed	Total number of award shares 31 March 2018	Performance period end	Price on grant	Market price at vesting	Monetary value of vested award £000
<b>Gavin Patterson</b>										
ISP 2014 <sup>a</sup>	1,090,141	–	–	–	(1,090,141)	–	31/03/2017	384.20p	–	–
ISP 2015 <sup>b</sup>	927,367	–	52,621	–	–	979,988	31/03/2018	449.50p	–	–
ISP 2016 <sup>c</sup>	1,029,146	–	58,397	–	–	1,087,543	31/03/2019	403.18p	–	–
ISP 2017 <sup>e</sup>	–	1,218,186	69,124	–	–	1,287,310	31/03/2020	286.40p	–	–
<b>Simon Lowth</b>										
ISP 2016 <sup>d</sup>	628,928	–	35,686	–	–	664,614	31/03/2019	405.38p	–	–
ISP 2017 <sup>e</sup>	–	855,446	48,540	–	–	903,986	31/03/2020	286.40p	–	–

<sup>a</sup> Award granted on 19 June 2014. 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 384.20p. 40% of the award is linked to TSR compared with a group of 22 other 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 award lapsed in May 2017.

<sup>b</sup> Award granted on 18 June 2015. 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 449.50p. 40% of the award is linked to TSR compared with a group of 22 other 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 2015 ISP. The award will lapse in May 2018.

<sup>c</sup> 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 the award is linked to TSR compared with a group of 21 other 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.

<sup>d</sup> 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 the award is linked to TSR compared with a group of 21 other 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.

<sup>e</sup> Awards granted on 22 June 2017. 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 286.40p. 40% of the award is linked to TSR compared with a group of 21 other 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.

## Share options held at 31 March 2018 (audited)

### Number of shares under option:

	1 April 2017	Granted	Lapsed	Exercised	31 March 2018	Option price per share	Market price at date of exercise	Usual date from which exercisable	Usual expiry date	
Gavin Patterson	5,642 <sup>a</sup>	–	–	–	5,642	319p	–	01/08/2019	01/02/2020	
<b>Former director</b>										
Sir Michael Rake <sup>b</sup>	5,172 <sup>a</sup>	–	–	–	5,172	319p	–	01/08/2019	01/02/2020	

All of the above options were granted for nil consideration.

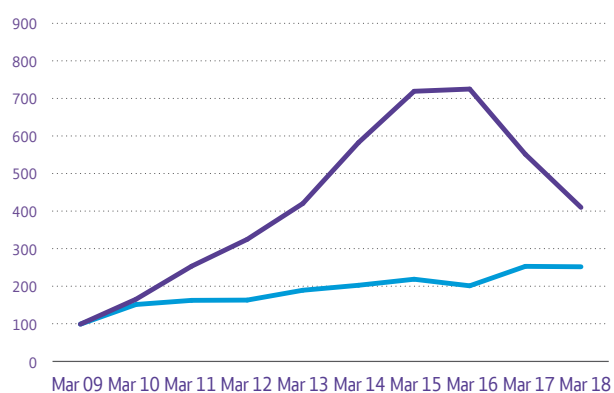
<sup>a</sup> Option granted on 26 June 2014 under the employee saveshare scheme, in which all employees of the company are entitled to participate.

<sup>b</sup> Sir Michael Rake retired as a director on 31 October 2017 and the number reflects the number of shares under option at that date. The options were exercisable up to 30 April 2018.

## Comparison of chief executive remuneration to total shareholder return (unaudited)

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

### BT's TSR performance vs the FTSE100



■ BT ■ FTSE100

Source: Datastream

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

## History of chief executive remuneration

Year end	Chief Executive	Total rem £000	Annual bonus (% of max)	ISP vesting (% of max)
2018	Gavin Patterson	2,307	54%	0%
2017	Gavin Patterson	1,345	0%	0%
2016 <sup>a</sup>	Gavin Patterson	5,396	45%	82.01%
2015	Gavin Patterson	4,562	58%	67.4%
2014 <sup>b</sup>	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%

<sup>a</sup> The total remuneration figure includes the ISP award as CEO BT Retail and the first award as chief executive, granted in 2013.

<sup>b</sup> Ian Livingston stepped down on 10 September 2013 and Gavin Patterson took over from that date.

## Percentage change in chief executive remuneration (unaudited)

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've used the UK management and technical employee population representing around 23,209 people. We believe this broad group provides the most meaningful comparison as they have similar performance related pay arrangements as our executive directors.

	Salary	Benefits <sup>a</sup>	Bonus <sup>b</sup>
% Change in chief executive remuneration	2.5%	+5.5%	N/A
% Change in comparator group <sup>c</sup>	2.5%	0%	+89.1%

<sup>a</sup> The increase in benefits for the chief executive was around £3,000.

<sup>b</sup> The bonus comparator is based on cash bonus only to give a better like-for-like comparison. No bonus was awarded to the chief executive in 2017.

<sup>c</sup> Comparator group is the UK management and technical employee population representing around 23,209 individuals.

## Relative importance of spend on pay (unaudited)

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

Area	2017/18 (£m)	2016/17 (£m)	% Change
Remuneration paid to all employees	5,400	5,189	4.07%
Dividends/share buybacks	1,746	1,642	6.33%

## Implementation of remuneration policy in 2018/19 (unaudited)

### Base salary

Having agreed no increases in 2017, the committee considered the base salaries for both executive directors. In line with the increases agreed for our managerial employees, we agreed 2.5% salary increases for both executive directors.

The table below sets out the 2018/19 base salaries for both executive directors. The increases are effective in June 2018.

	Base salary	% change
Chief executive	£1,022,000	+2.5%
Chief financial officer	£717,500	+2.5%

### Benefits

The committee has set benefits in line with the remuneration policy set out on pages 173 to 180. We propose no changes to the benefit framework for 2018/19.

### Pension

Levels of pension provision for 2018/19 are the same as for 2017/18. Executive directors receive an annual amount equal to 30% of salary in lieu of pension provision.

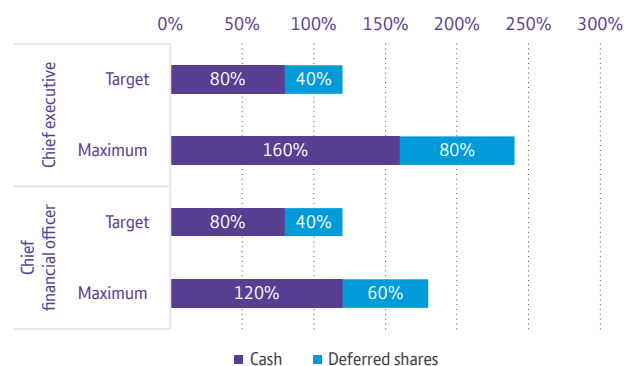
### Clawback and malus

Clawback provisions will apply to annual bonus payments relating to the 2018/19 financial year, and for the ISP awards that are expected to be made in June 2018.

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.

### Annual bonus

The table below describes the level of bonus opportunity (expressed as a percentage of salary) for the chief executive and chief financial officer. One third of any bonus will be deferred into shares for a period of three years.



The 2018/19 annual bonus structure and weighting is set out below.

### Chief executive and chief financial officer

% Weighting

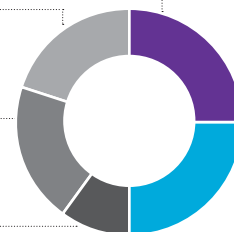
25% Adjusted earnings per share

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 24 to 25.

We don't publish details of the financial targets in advance as these are commercially confidential. We will publish achievement against these targets at the same time as we disclose bonus payments in the 2019 Directors' Remuneration Report so 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 chief financial officer and each senior executive, eg, CFU CEO. 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

The committee reviewed the level of ISP award for both executive directors. In 2017 the level of ISP award for the chief executive was reduced from 400% of salary to 350% of salary in light of the share price fall in the year. This year the committee carefully considered reverting to an award of 400% of salary. However, in the light of the share price fall in the year it decided that an award of 350% of salary was fair. It is the committee's intention to revert to an award of 400% of salary next year assuming overall performance supports that move. An award of 350% of salary will also be made to the chief financial officer.

We expect to grant the awards in June 2018. Any shares acquired on the vesting of the 2018 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 2017 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.

## Annual remuneration report continued

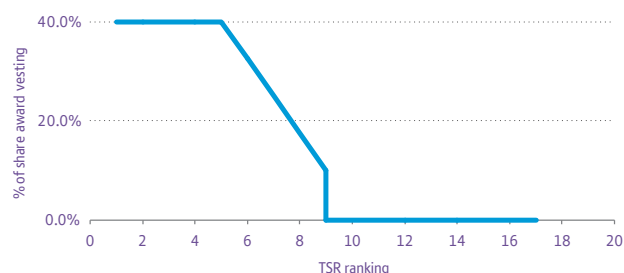
The committee reviewed BT's approach to TSR and the comparator group during the year following a number of changes to the business. The changes include strategic developments, the acquisition of EE and its integration into the consumer business, substantial investment in BT Sport and the legal separation of Openreach. The committee agreed a revised comparator group of 16 other companies for the 2018 awards as set out below.

**BT's TSR comparator group for the 2018 ISP will comprise the companies listed below.**

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

### TSR vesting schedule 2018 awards

For the 2018 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.



### Financial targets

The table below sets out the target ranges for the normalised free cash flow and underlying revenue growth (excluding transit).

Measure 2018/19–2020/21	Threshold	Level of vesting	Maximum	Level of vesting <sup>a</sup>
Normalised free cash flow <sup>b</sup>	£6.4bn	25%	£7.4bn	100%
Underlying revenue (excluding transit) <sup>c</sup>	0.2%	25%	1.9%	100%

<sup>a</sup> Vesting level between threshold and maximum will be on a straight line basis.

<sup>b</sup> Normalised free cash flow is defined on page 25.

<sup>c</sup> Growth in underlying revenue (excluding transit) is defined on page 24.

The committee aims to set stretching targets that require strong outperformance for maximum vesting, yet remain realistic in the context of the significant investments in our networks that we need to make over the next three years. The committee recognises that the financial targets are lower than the 2017 ISP awards but considers that in the current economic and regulatory environment these targets represent an equivalent stretch to those set in prior years.

The targets above have been set on an IAS basis. The committee will review any impact arising from BT's transition to IFRS 15, applicable from 1 April 2018, during 2018/19. Any adjustments required as a result of the standard will be reported in the 2019 Directors' Remuneration Report.

## Chairman and non-executive director remuneration

The fees for non-executive directors were reviewed during the year. The last review of non-executive director fees was in January 2017 when no changes were made. 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, the basic fee for a non-executive director was increased to £75,000 per year (from £72,000) from 1 January 2018. The chair and membership fees of the *BT Compliance Committee*, a sub-committee of the *Audit & Risk committee* formed during the year, were also agreed. Further detail on the *BT Compliance Committee* can be found on page 145.

Following the change in chairmanship of the *Committee for Responsible & Sustainable Business*, a chair fee of £12,000 was agreed. The chairman of the Board previously held this position and as such no chair fee was payable.

The committee agreed an increase to £4,000 (from £2,000) for the fee paid per trip to those non-executive directors travelling on an inter-continental basis to Board and Board committee meetings.

The *Integration Committee* was disbanded during the year. See page 139 for further detail.

The table below sets out the fees for membership of, or chairing a Board committee (including the changes agreed during the year):

Committee	Chairman's fee	Member's fee
Audit & Risk	£35,000	£25,000
BT Compliance <sup>a</sup>	£25,000 <sup>b</sup>	£12,000
Nominating & Governance	n/a <sup>c</sup>	£10,000
BT Pensions	£25,000	£10,000
Remuneration	£28,000	£15,000
Sustainable & Responsible Business	£12,000 <sup>d</sup>	£5,000
Technology	n/a <sup>c</sup>	£14,000
Equality of Access Board <sup>e</sup>	£72,500	n/a

<sup>a</sup> A sub-committee of the *Audit & Risk Committee*.

<sup>b</sup> Nil if the Equality of Access Board chair also chairs the *BT Compliance Committee*.

<sup>c</sup> Where the chairman or chief executive acts as chair of a Board committee, no additional committee chair fee is payable.

<sup>d</sup> External members of the CSRB receive a fee of £10,000 a year.

<sup>e</sup> External members of the Equality of Access Board receive an annual fee of £37,000.

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

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.

No review of the chairman's fee was undertaken. The committee agreed a five year fixed fee of £700,000 per year, on Jan du Plessis's appointment as chairman.

## Other remuneration matters

### Advisers

During the year, the committee received independent advice on executive remuneration matters from Deloitte LLP. Deloitte received £174,625 in fees for these services. The fees are charged on a time-spent basis in delivering advice. That advice materially assisted the committee in their consideration of matters relating to executive remuneration.

Deloitte is a founder member of the Remuneration Consultants Group and as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The committee appointed Deloitte to the role of independent advisers to the committee in 2012 following a competitive tender exercise conducted by the committee.

The committee is comfortable that the Deloitte engagement partner and team, who provide remuneration advice to the committee, have no connections with BT that may impair their independence or objectivity.

In addition, during 2017/18, Deloitte 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 2018/19. Shares held in the Trust do not have any voting rights.

At the end of 2017/18, shares equivalent to 1.76% (2016/17: 1.89%) of the issued share capital (excluding treasury shares) would be required for all share options and awards outstanding.

Of these, we estimate that for 2018/19, shares equivalent to approximately 0.28% (2017/18: 0.45%) 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.

From 2018/19, the *Nominating & Governance Committee* will consider proposed external directorships and other external interests by executive directors, members of the ExCo and other senior direct reports to the chief executive.

### Voting at the 2017 Annual General Meeting

The table below sets out the votes cast in respect of the Annual Remuneration Report and the Remuneration Policy at the Annual General Meeting held on 12 July 2017.

	Votes cast in favour	%	Votes cast against	%
Approve Annual Remuneration Report	6,711,751,544	96.85%	218,449,483	3.15%
Approve Remuneration Policy	6,654,431,173	96.12%	268,487,768	3.88%

7,604,373 votes were withheld against approving the Annual Remuneration Report while 14,886,907 votes were withheld against approving the Directors' Remuneration Policy. Withheld votes are not counted when calculating voting outcomes.

### Committee evaluation 2017/18

As part of the Board evaluation, we evaluated the committee's effectiveness, having regard to the findings of the external facilitator and the inputs of others. We concluded that the committee operates efficiently and has benefited from the recent addition of two new members.

### 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 make clear that additional time may be required during periods of 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.

See page 172 for further details of appointment arrangements for independent non-executive directors.

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 in January 2016 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 following table sets out the dates on which directors' service agreements/initial letters of appointment commenced and the current expiry dates:

Chairman and executive directors	Commencement date	Expiry date of current service agreement or letter of appointment
<b>Jan du Plessis</b>	1 June 2017	The agreement is terminable by the company on 12 months' notice and by the director on six months' notice.
<b>Gavin Patterson</b>	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.
<b>Simon Lowth</b>	6 July 2016	Terminable by the company on 12 months' notice and by the director on six months' notice.
<b>Non-executive directors</b>		
<b>Tony Ball</b>	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.
<b>Iain Conn</b>	1 June 2014	Letter of appointment was for an initial period of three years. The appointment was extended for a further three years in May 2017.
<b>Tim Höttges</b>	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.
<b>Isabel Hudson</b>	1 November 2014	Letter of appointment was for an initial period of three years. The appointment was extended for a further three years in October 2017.
<b>Mike Inglis</b>	1 September 2015	Letter of appointment was for an initial period of three years.
<b>Karen Richardson</b>	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 2017 following extension in 2014.
<b>Nick Rose</b>	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 2016 following extension in 2013.
<b>Jasmine Whitbread</b>	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 2016 following extension in 2013.

There are no other service agreements, letters of appointment or material contracts, existing or proposed, between the company and any of the directors. There are no arrangements or understandings between any director or executive officer and any other person pursuant to which any director or executive officer was selected to serve. There are no family relationships between the directors.

### Inspection by the public

The service agreements and letters of appointment are available for inspection by the public at BT's registered office. They will also be available for inspection commencing one hour prior to the start of our AGM, to be held in Edinburgh on 11 July 2018.

### Tony Ball

**Chairman of the Remuneration Committee**

9 May 2018

## Remuneration policy

The following pages set out our directors' remuneration policy (the 'Policy') which was approved by shareholders at the AGM on 12 July 2017 in accordance with section 439A of the Companies Act 2006.

The votes cast in respect of the Policy at the 2017 AGM were as set out on page 171.

The Policy on pages 174 to 180 is a repeat of the Policy set out on pages 138 to 145 in the Annual Report & Form 20-F 2017. As such all page cross-references within the repeated Policy are to the respective pages in the Annual Report & Form 20-F 2017. The Policy, as approved, is also available online at [bt.com/downloadcentre](http://bt.com/downloadcentre)

We are repeating the Policy this year because we believe it's helpful when reading the Annual Remuneration Report.

## 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.

# Remuneration Policy

## Executive Directors and Chairman

Policy Element	Operation and Opportunity	Performance measures or basis of payment
<p><b>Base salary</b> Purpose – a core element of remuneration, used to attract and retain executive directors of the calibre required to develop and deliver our business strategy.</p>	<p>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.</p> <p>The pay and conditions for all UK employees are considered when setting salaries for executive directors and the chairman.</p>	<p>Whilst there is no maximum salary level, any increase will typically be broadly in line with BT's UK employee population.</p> <p>For the executive directors, higher increases may be made under certain circumstances, such as:</p> <ul style="list-style-type: none"> <li>– increase in the scope and/or responsibility of the individual's role;</li> <li>– development of the individual within their role; and</li> <li>– 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.</li> </ul> <p>Individual and business performance are taken into account in deciding salary levels.</p>
<p><b>Benefits</b> Purpose – to support health and wellbeing and provide employees with a market competitive level of benefits.</p>	<p>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.</p> <p>Where executive directors are required to relocate, the committee may offer additional expatriate benefits, if considered appropriate.</p> <p>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.</p> <p>Further details of the directors' and officers' liability insurance and indemnity are set out on page 147.</p>	<p>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:</p> <ul style="list-style-type: none"> <li>– the jurisdiction in which the employee is based;</li> <li>– the level of benefits provided for other employees within the group; and</li> <li>– market practice for comparable roles within appropriate pay comparators in that jurisdiction.</li> </ul> <p>The committee keeps the benefit policy and benefit levels under regular review.</p>
<p><b>Annual bonus</b> Purpose – to incentivise and reward delivery of our business plan on an annual basis.</p>	<p>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.</p> <p>The committee sets annual bonus performance targets each year, taking into account key strategic priorities and the approved budget for the year.</p> <p>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.</p> <p>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.</p>	<p>The committee seeks to effectively reward performance against the key elements of our strategy. Measures used typically include, but are not limited to:</p> <ul style="list-style-type: none"> <li>– 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</li> <li>– 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.</li> </ul> <p>In terms of weighting, non-financial measures will typically account for no more than 50% of the total annual bonus.</p> <p>A sliding scale between 0% and 100% of the maximum award applies for achievement between threshold and maximum performance under the bonus plan.</p>

Policy Element	Operation and Opportunity	Performance measures or basis of payment
<p><b>Incentive Share Plan (ISP)</b> Purpose – to incentivise executive directors over the longer-term, by rewarding delivery of stretching targets linked to our strategy and long-term value creation.</p>	<p>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.</p> <p>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.</p> <p>The proposed award levels for 2017/18 are set out on page 134.</p> <p>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.</p> <p>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.</p>	<p>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:</p> <ul style="list-style-type: none"> <li>– 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</li> <li>– 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.</li> </ul> <p>In terms of weighting, share price performance measures will typically account for no more than 50% of the total award.</p> <p>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.</p>
<p><b>Pension</b> Purpose – to attract and retain executive directors of the right calibre by providing market competitive post-retirement income.</p>	<p>Executive directors currently receive a cash allowance in lieu of pension.</p> <p>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:</p> <ul style="list-style-type: none"> <li>– the cost of the arrangements;</li> <li>– pension arrangements received elsewhere in the group; and</li> <li>– relevant market practice.</li> </ul> <p>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.</p> <p>For executive directors, the maximum cash allowance (or equivalent contribution to an executive director's pension) may not exceed 30% of salary.</p> <p>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.</p>	

# Remuneration Policy

## Executive Directors and Chairman continued

Policy Element	Operation and Opportunity	Performance measures or basis of payment
<b>Save As You Earn Saveshare Scheme</b> 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.
<b>ESIP (directshare)</b> 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.

# Remuneration Policy

## Executive Directors and Chairman continued

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
<b>Notice period</b>	– 12 months’ notice by the company, six months’ notice by the executive director or chairman (there is no fixed expiry date).
<b>Termination payment</b>	<ul style="list-style-type: none"> <li>– 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.</li> <li>– 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.</li> <li>– 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.</li> </ul>
<b>Remuneration and benefits</b>	<ul style="list-style-type: none"> <li>– 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.</li> <li>– 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.</li> <li>– The chairman receives an all-inclusive fee for the role.</li> </ul>

### 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 director. Illustration 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.

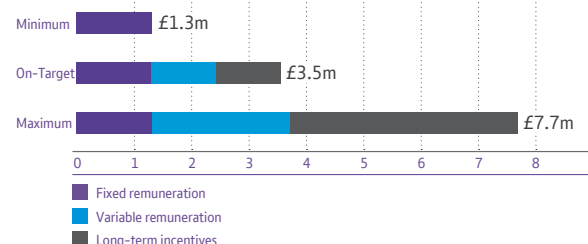
The minimum reflects base salary, pension and benefits only which are not performance related.

	Performance	Assumptions
<b>Fixed pay</b>	All scenarios	Consists of total fixed pay – base salary, benefits and pension: <ul style="list-style-type: none"> <li>– Base salary – salary effective as at June 2017</li> <li>– Benefits – amount received by each director in 2016/17</li> <li>– Pension – cash supplement in lieu of pension provision for 2016/17</li> </ul>
<b>Variable pay</b>	Minimum	<ul style="list-style-type: none"> <li>– No payout under the annual bonus</li> <li>– No vesting under the ISP</li> </ul>
	On-target	<ul style="list-style-type: none"> <li>– On target payout under the annual bonus</li> <li>– 25% of maximum vesting under the ISP</li> </ul>
	Maximum	<ul style="list-style-type: none"> <li>– 100% of the maximum payout under the annual bonus</li> <li>– 100% of maximum vesting under the ISP</li> </ul>

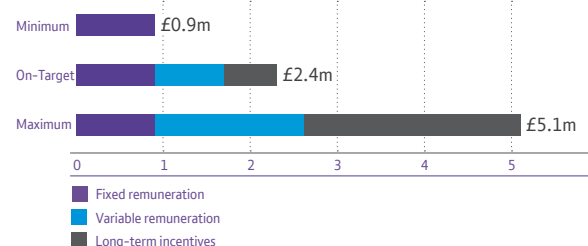
For the purposes of the scenarios chart for the group finance director, we have increased the amount received in 2016/17 on a pro-rata basis to reflect a full financial year. The chief executive has a target bonus of 120% of salary, with a maximum bonus of 240% of salary. The group finance director has 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
<p><b>Purpose</b> Core element of remuneration, paid for fulfilling the relevant role</p>	<ul style="list-style-type: none"> <li>- NEDs receive a basic fee, paid monthly in respect of their board duties.</li> <li>- Further fees may be paid for chairmanship or membership of Board committees or to the senior independent director.</li> <li>- 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.</li> <li>- NEDs are not eligible for annual bonus, share incentives, pensions or other benefits.</li> <li>- 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.</li> </ul>	<ul style="list-style-type: none"> <li>- Current fee levels can be found in the Annual Report on Remuneration on page 135.</li> <li>- Fees are set at a level which is considered appropriate to attract and retain NEDs of the necessary calibre.</li> <li>- 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.</li> <li>- 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.</li> </ul>

# Directors' information

## Statement of directors' responsibilities

Our directors are responsible for preparing the **Annual Report**, the **Report on directors' remuneration** and the **financial statements** in accordance with applicable law and regulation. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards Comprising FRS 101 "Reduced Disclosure Framework") and applicable law. In preparing the group financial statements, the directors have also elected to comply with IFRS, issued by the International Accounting Standards Board (IASB). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company, and of the profit or loss of the group and company for that period.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently
- state whether applicable IFRSs, as adopted by the European Union and IFRSs issued by IASB have been followed for the group financial statements and United Kingdom Accounting Standards comprising FRS 101 have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements
- make judgements and accounting estimates that are reasonable and prudent
- prepare financial statements on a 'going concern' basis unless it's inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company as well as ensuring that the financial statements and the **Report on directors' remuneration** comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The directors are also responsible for safeguarding the assets of the group and company, and for taking reasonable steps to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed on pages 134 to 135, confirms that, to the best of their knowledge:

- the company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the company
- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union - Dual IFRS (European Union and IASB) - give a true and fair view of the assets, liabilities, financial position and profit of the group
- the **Strategic Report** on pages 1 to 130 includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

## Fair, balanced and understandable

In accordance with the principles of the UK Corporate Governance Code, we've put processes and procedures in place to ensure the information presented in the Annual Report is fair, balanced and understandable. We describe these processes and procedures on page 147.

On the advice of the *Audit & Risk Committee*, the Board considers that the Annual Report, as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the group and company's position, performance, business model and strategy.

## Critical accounting estimates, key judgements and significant accounting policies

Our critical accounting estimates, key judgements and significant accounting policies conform with IFRSs, as adopted by the European Union and IFRSs issued by IASB, and are set out on pages 208 to 214 of the consolidated financial statements. The directors have reviewed these policies and applicable estimation techniques, and have confirmed they're appropriate for the preparation of the 2017/18 consolidated financial statements.

## Disclosure of information to auditors

As far as each of the directors is aware, there is no relevant audit information (as defined by section 418(3) of the Companies Act 2006) that hasn't been disclosed to the auditors. Each of the directors believes that all steps have been taken that ought to have been taken to make them aware of any relevant audit information and to establish that the auditors have been made aware of that information.

## Going concern

The **Strategic Report** on pages 1 to 130 includes information on the group structure, strategy and business model, the performance of each customer-facing unit, the impact of regulation and competition, and principal risks and uncertainties. The **Group Performance** section on pages 118 to 130 includes information on our group financial results, financial outlook, cash flow and net debt, and balance sheet position. Notes 23, 24, 25 and 27 of the consolidated financial statements include information on the group's investments, cash and cash equivalents, borrowings, derivatives, financial risk management objectives, hedging policies and exposure to interest, foreign exchange, credit, liquidity and market risks.

In line with IAS 1 'Presentation of financial statements', and revised FRC guidance on 'risk management, internal control and related financial and business reporting', management has taken into account all available information about the future for a period of at least, but not limited to, 12 months from the date of approval of the financial statements when assessing the group's ability to continue as a going concern.

The directors carried out a robust assessment of the principal risks affecting the group, including any that could threaten our business model, future performance, insolvency or liquidity. Details of those risks and how we manage and mitigate them are set out in **Our principal risks and uncertainties** on pages 57 to 70.

Having assessed the principal risks, the directors considered it appropriate to adopt the going concern basis of accounting when preparing the financial statements. This assessment covers the period to May 2019, which is consistent with the FRC guidance.

## Independent advice

The Board has a procedure that allows directors to seek independent professional advice at BT's expense.

All directors also have access to the advice and services of the company secretary.

## Directors' and officers' liability insurance and indemnity

For some years, BT has bought insurance cover for directors, officers and employees in positions of managerial supervision of BT Group plc and its subsidiaries. This is intended to protect against defence costs, civil damages and, in some circumstances, civil fines and penalties following an action brought against them in their personal capacity. The policy also covers individuals serving as directors of other companies or of joint ventures or on boards of trade associations or charitable organisations at BT's request. The insurance protects the directors and officers directly in circumstances where, by law, BT cannot provide an indemnity. It also provides BT, subject to a retention, with cover against the cost of indemnifying a director or officer. One layer of insurance is ring-fenced for the directors of BT Group plc.

As at 4 May 2018, and throughout 2017/18, the company's wholly-owned subsidiary, British Telecommunications plc, has provided an indemnity for a group of people similar to the group covered by the above insurance. Neither the insurance nor the indemnity provides cover where the person is proven to have acted fraudulently or dishonestly.

## Interest of management in certain transactions

During and at the end of 2017/18, none of BT's directors was materially interested in any material transaction in relation to the group's business. None is materially interested in any currently proposed material transactions.

As set out below, Tim Höttges is a member of the Board as well as the CEO of Deutsche Telekom.

## Power to authorise conflicts

All directors have a duty under the Companies Act 2006 ("the 2006 Act") to avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company. The company's Articles of Association include provisions for dealing with directors' conflicts of interest in accordance with the 2006 Act. The company has procedures in place, which it follows, to deal with such situations. These require the Board to:

- consider each conflict situation separately on its particular facts
- consider the conflict situation in conjunction with its other duties under the 2006 Act
- keep records and Board minutes on any authorisations granted by directors and the scope of any approvals given
- regularly review conflict authorisation.

We also have a *Conflicted Matters Committee*. Tim Höttges owes duties to both BT and Deutsche Telekom, and the *Conflicted Matters Committee* helps him comply with his fiduciary duties (although ultimate responsibility rests with him).

# General information

## US regulation

### New York Stock Exchange

BT, as a foreign issuer with American Depositary Shares listed on the New York Stock Exchange (NYSE), is obliged to disclose any significant ways in which its corporate governance practices differ from the corporate governance listing standards of the NYSE.

We've reviewed the NYSE's listing standards and believe that our corporate governance practices are consistent with them, with the following exception where we don't meet the strict requirements in the standards. These state that companies must have a nominating/corporate governance committee composed entirely of independent directors and with written terms of reference which, in addition to identifying individuals qualified to become board members, develops and recommends to the Board a set of corporate governance principles applicable to the company. We have a *Nominating & Governance Committee* whose terms of reference include governance and compliance issues (see **Nominating & Governance Committee chairman's report** on pages 150 to 151). The *Nominating & Governance Committee's* terms of reference are in line with the requirements set out in the standards. However, the committee is chaired by the chairman, Jan du Plessis, who isn't considered independent under the NYSE's listing standards. Tim Höttges, our non-independent, non-executive director, joined the committee on 1 May 2018. The Board and the *Nominating & Governance Committee* are made up of a majority of independent, non-executive directors.

The US Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act), the US Securities and Exchange Commission (SEC) and NYSE listing standards require companies to comply with certain provisions relating to their audit committee. These include the independence of audit committee members and procedures for the treatment of complaints regarding accounting or auditing matters. We comply fully with these requirements.

### US Sarbanes-Oxley Act of 2002

BT has securities registered with the SEC. As a result, we must comply with those provisions of the Sarbanes-Oxley Act which apply to foreign issuers. We comply with the legal and regulatory requirements introduced under the Sarbanes-Oxley Act, in so far as they apply.

The *Audit & Risk Committee* includes Nick Rose who, in the opinion of the Board, is an 'audit committee financial expert' and is independent (as defined for this purpose). The Board considers that the committee's members have broad commercial knowledge and extensive business leadership experience, having held between them various prior roles in major business, financial management, and financial function supervision and that this constitutes a broad and suitable mix of business and financial experience on the committee.

The code of ethics we have adopted for the purposes of the Sarbanes-Oxley Act applies to the chief executive, chief financial officer and senior finance managers.

## Controls and procedures

### Background and status of remediation of material weakness reported in 2017

In October 2016 we reported that following an initial investigation we had identified improper accounting practices in our Italian business. We had appointed KPMG, with support and oversight from our Legal, Governance and Compliance function and Freshfields Bruckhaus Deringer, reporting directly to both the chair of the *Audit & Risk Committee* and BT Group chairman, to perform an independent investigation, alongside our own investigation and detailed balance sheet review. In January 2017 we reported that the investigations had revealed that the extent and complexity of the improper practices were greater than previously identified and that these had resulted in an overstatement of profits over a number of years.

The investigations uncovered that individuals in our Italian business colluded to override the period end financial close controls and overstate the results, and the monitoring controls which include the review of reconciliations, journals, results and financial position, did not operate effectively to identify the overstatement in a timely manner. Management concluded that the group did not maintain effective controls to prevent or detect the collusive circumvention or override of controls related to our Italian business. Specifically management identified the following internal control deficiencies related to our Italian business and the failure to detect the circumvention or override of controls: (i) failure in the review of reconciliations, (ii) failure in the review of journals and (iii) failure in our monitoring controls over the results and financial position of our Italian business. Together, these deficiencies constituted a material weakness in the control environment, and management concluded that, as of 31 March 2017, our internal control over financial reporting was not effective.

### Remediation

Beginning in October 2016, and later informed by the results of the KPMG investigation and management's own review, management implemented a series of remedial and compensating actions, including suspending key members of the management team in Italy (who have now left the business) and appointing a new senior management team in Italy, strengthening the monitoring controls and escalation mechanisms in our finance shared service centres, transferring Italy in-country managed customer billing activities to the group customer billing team and performing detailed substantive reviews of the balance sheet of our Italian business and other large country operations outside the UK. The active engagement in the design and implementation of remediation efforts intended to address the material weakness in the control environment as of 31 March 2017 has continued during 2017/18 as described below. The design and implementation of these and other remedial efforts are the responsibility of management.

We have implemented a number of changes across the group including steps to improve processes and controls, not only in Italy, but also in our shared service centres, in Global Services and across the wider group.

## General information continued

In relation to the matters that gave rise to the material weakness in the control environment, that existed as of 31 March 2017, we have strengthened our review of reconciliations, journals, results and the financial position for Italy. Specifically:

- we introduced enhanced and detailed policies and procedures including a detailed checklist that must be followed when reviewing any journals in Italy and in our Budapest shared service centre
- we enhanced the review of reconciliations including the review of significant and aged reconciling items within balance sheet account reconciliations
- we introduced new detailed oversight controls to holistically review the results and financial position of Italy and other material overseas territories.

We also introduced similar enhancements to journals, reconciliation and oversight controls (assessing the results and financial position) in relation to other material overseas territories and provided additional control guidance and procedures to local finance teams, including a clear policy as to when and whom concerns should be escalated.

Each of these enhanced and new controls is operating effectively.

We have also sought to improve the capabilities of our functions outside the UK. We have reviewed the talent mix on international leadership teams, including establishing an ex-pat programme. Within Italy, we have made further senior finance appointments, including a new deputy CFO and financial controller. We have established monitoring to detect early warning signs and assessed target setting and remuneration to ensure it reflects balanced risks and opportunities.

We have continued our programme of detailed balance sheet reviews in our operations in Global Services outside of the UK. Combined with the reviews performed in 2016/17, these have now covered around 80% by asset value of the operations outside the UK. These reviews have not identified any similar issues or areas of concern elsewhere, giving us comfort that the inappropriate behaviours were isolated to Italy.

Across the group, we have enhanced our controls and compliance programmes to strengthen awareness of the standards we expect, and reinforced the importance of doing business in an ethical and disciplined way. We have also sought to enhance the capabilities of our people. All finance employees have completed Financial Statement Fraud awareness training which includes a module on how to escalate concerns. We have redefined and communicated our three lines of defence model and developed and communicated these enhanced controls, policies and procedures.

At the group level, we have introduced enhanced integrated financial risk and assurance reviews which combine a review of controls and compliance issues, external and internal audit findings, risk registers and legal matters, alongside the reviews of performance, financial position, business and accounting issues and quality of earnings analysis of each of our customer-facing units and corporate units.

As a result of these remediation efforts, including allowing for a sufficient period of time to confirm that the new processes and controls put in place as part of the remediation are operating effectively, management has concluded that we have remediated the material weakness identified as of 31 March 2017. While we are satisfied with the improvements to processes and controls we have implemented in the year, we recognise that further system and process improvement opportunities exist which will continue to be a focus in 2018/19.

### Disclosure controls and procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934 (Exchange Act), and the rules and regulations thereunder, is recorded, processed, summarised and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our chief executive and chief financial officer to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognises that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgement and makes assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

We have evaluated the effectiveness of our disclosure controls and procedures. Based upon that evaluation, our chief executive and chief financial officer concluded that, as of 31 March 2018, our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or furnish under the Exchange Act is recorded, processed, summarised and reported, within the time periods specified in the applicable rules and forms.

### Management's report on internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the group. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with IFRS as issued by the IASB and IFRS as adopted by the EU.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of our internal control over financial reporting as of 31 March 2018 based on the criteria established in "Internal Control – Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Following this assessment, management has concluded that our internal control over financial reporting was effective as of 31 March 2018.

### Audit of the effectiveness of internal control over financial reporting

Our independent registered public accounting firm, PricewaterhouseCoopers LLP, has audited the effectiveness of our internal control over financial reporting, as stated in their report as of 31 March 2018, which is included herein.

### Changes in internal control over financial reporting

Changes in our internal control over financial reporting that occurred during 2017/18, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting are described above under **Remediation**, on page 183.

### UK internal control and risk management

The Board is responsible for the group's systems of internal control and risk management, and for reviewing the effectiveness of those systems each year. These systems are designed to manage, rather than eliminate, risks we face that may prevent us achieving our business objectives; any system can provide only reasonable, and not absolute, assurance against material misstatement or loss.

For details of our assessment of our internal controls for the purposes of the Sarbanes-Oxley Act, see **US Regulation** on page 183.

The Board also takes account of significant social, environmental and ethical matters that relate to BT's businesses, and reviews BT's corporate responsibility policy every year. We describe our workplace practices, specific environmental, social and ethical risks and opportunities, and details of underlying governance processes on pages 1 to 130 in the **Strategic Report**.

We've enterprise-wide risk management processes in place for identifying, evaluating and managing the principal risks faced by the group. These processes have been in place throughout the year and have continued up to the date on which this document was approved. The processes are in accordance with the FRC guidance on risk management, internal control and related financial and business reporting.

Risk assessment and evaluation take place as an integral part of BT's annual strategic planning cycle. We've a detailed risk management process which identifies the key risks facing the group, our customer-facing units and TSO.

The key features of our enterprise-wide risk management and internal control process (covering financial, operational and compliance controls) are:

- senior executives collectively review the group's key risks, and have created a Group Risk Register describing the risks, their owners and associated mitigation strategies. The *Group Risk Panel* and the *Executive Committee* reviews this before it's reviewed and approved by the Board
- our customer-facing units and TSO carry out risk assessments of their operations, create risk registers relating to those operations and ensure that the key risks are addressed
- senior executives with responsibility for major group operations report quarterly their opinion on the effectiveness of the operation of internal controls in their areas of responsibility
- the group's internal auditors carry out ongoing assessments of the quality of risk management and control, report to management and the *Audit & Risk Committee* on the status of specific areas identified for improvement, and promote effective risk management in customer-facing units and TSO
- the *Audit & Risk Committee*, on behalf of the Board, considers the effectiveness of the group's internal control procedures during the financial year. It reviews reports from the internal and external auditors, and reports its conclusions to the Board. The *Audit & Risk Committee* has carried out these actions for 2017/18
- the *Audit & Risk Committee*, on behalf of the Board, reviews the effectiveness of risk management arrangements across the group. In support of this, the chief executive and the CEOs of each customer-facing unit hold an annual review meeting.

We haven't included joint ventures and associates, which BT doesn't control, as part of the group risk management process. Third parties we enter into joint ventures with are responsible for their own internal control assessment.

We've set out our significant accounting policies on pages 209 to 214. The consistent application of those policies is subject to ongoing verification through management review and independent review by internal and external auditors.

The processes supporting the preparation and consolidation of the financial statements have been documented and are subject to annual verification through the programme of testing completed by our internal auditors. This serves to confirm the operation of internal controls over financial reporting, and compliance with the Sarbanes-Oxley Act. The *Audit & Risk Committee* reviews BT's published financial results, related disclosures and accounting judgements. The committee's activities are set out on pages 144 to 149.

## General information continued

The Board has approved the formal statement of matters reserved to it for consideration, approval or oversight. It's also approved the group's corporate governance framework, which sets out the high level principles by which BT is managed and the responsibilities and powers of the chief executive and the group's senior executives. As part of this framework, the development and implementation of certain powers relating to group-wide policies and practices are reserved to identified senior executives.

### Capital management and funding policy

The objective of our capital management policy is to target an overall level of debt consistent with our credit rating objectives, while investing in the business, supporting the pension fund and paying progressive dividends.

The Board reviews the group's capital structure regularly. Management proposes actions which reflect the group's investment plans and risk characteristics, as well as the macro-economic conditions in which we operate.

Our funding policy is to raise and invest funds centrally to meet the group's anticipated requirements. We use a combination of capital market bond issuance, commercial paper borrowing and committed borrowing facilities to fund the group. When issuing debt, in order to avoid refinancing risk, group treasury will take into consideration the maturity profile of the group's debt portfolio as well as forecast cash flows.

See note 27 to the consolidated financial statements for details of our treasury policy.

### Financial instruments

Details of the group's financial risk management objectives and policies of the group and exposure to interest risk, credit risk, liquidity risk and foreign exchange are given in note 27 to the consolidated financial statements.

### Credit risk management policy

We take proactive steps to minimise the impact of adverse market conditions on our financial instruments. In managing investments and derivative financial instruments, the group's central treasury function monitors the credit quality across treasury counterparties and actively manages any exposures which arise. Management within the business units also actively monitors any exposures arising from trading balances.

### Off-balance sheet arrangements

Other than the financial commitments and contingent liabilities disclosed in note 30 to the consolidated financial statements, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on:

- our financial condition
- changes in financial condition
- revenues or expenses
- results of operations
- liquidity
- capital expenditure
- capital resources.

### Legal proceedings

The group is involved in various legal proceedings, including actual or threatened litigation and government or regulatory investigations. For further details of legal and regulatory proceedings to which the group is party please see note 30 to the consolidated financial statements on pages 262 to 263.

Apart from the information disclosed in note 30 to the consolidated financial statements, the group does not currently believe that there are any legal proceedings, government or regulatory investigations that may have a material adverse impact on the operations or financial condition of the group. In respect of each of the claims described in note 30, the nature and progression of such proceedings and investigations can make it difficult to predict the impact they will have on the group. Many factors prevent us from making these assessments with certainty, including that the proceedings or investigations are in early stages, no damages or remedies have been specified, and/or the often slow pace of litigation.

## Other information – Listing Rules

For the purposes of LR 9.8.4CR, the information required to be disclosed by LR 9.8.4R is on the following pages:

Section Information	Page
(1) Interest capitalised	Not material for the group
(2) Publication of unaudited financial information	24 to 25
(4) Details of unusual long-term incentive schemes	Not applicable
(5) Waiver of emoluments by a director	Not applicable
(6) Waiver of future emoluments by a director	Not applicable
(7) Non pre-emptive issues of equity for cash	Not applicable
(8) Non pre-emptive issue by a major subsidiary undertaking	Not applicable
(9) Parent participation in a placing by a listed subsidiary	Not applicable
(10) Contracts of significance involving a director or controlling shareholder	Not applicable
(11) Provision of services by a controlling shareholder	Not applicable
(12) Shareholder waiver of dividends	See below
(13) Shareholder waiver of future dividends	See below
(14) Agreements with controlling shareholders	Not applicable

In respect of LR 9.8.4R (12) and (13), the Trustee of the BT Group Employee Share Ownership Trust agrees to waive dividends payable on the BT shares it holds for satisfying awards under various BT executive share plans. Under the rules of these share plans, the dividends are reinvested in BT shares that are added to the relevant share awards.

## Other statutory information – Companies Act 2006

Certain provisions of the 2006 Act require us to make additional disclosures. These are described on the pages listed below:

Information	Page
Structure of BT's share capital (including the rights and obligations attaching to the shares)	204 and 302 to 304
Restrictions on the transfer of BT shares and voting rights	302 to 304
Significant direct or indirect shareholdings	143
Appointment and replacement of directors	172 and 304
Significant agreements to which BT Group plc is a party that take effect, alter or terminate upon a change of control following a takeover	Not applicable

The following disclosures aren't covered elsewhere in this Annual Report:

- BT has two employee share ownership trusts that hold BT shares for satisfying awards under our various employee share plans. The Trustee of the BT Group Employee Share Investment Plan may invite participants, on whose behalf it holds shares, to direct it how to vote in respect of those shares. If there's an offer for the shares or other transaction which would lead to a change of control of BT, participants may direct the Trustee to accept the offer or agree to the transaction. In respect of shares held in the BT Group Employee Share Ownership Trust, the Trustee abstains from voting those shares
- if there's an offer for the shares, the Trustee doesn't have to accept or reject the offer but will have regard to the interests of the participants, may consult them to obtain their views on the offer, and may otherwise take the action with respect to the offer it thinks fair
- no person holds securities carrying special rights with regard to control of the company
- proxy appointment and voting instructions must be received by the registrars no less than 48 hours before a general meeting (see also page 302)
- any amendment of BT's Articles of Association requires shareholder approval in accordance with applicable legislation
- the powers of the directors are determined by UK legislation and the Articles of Association. The directors are authorised to issue and allot shares, and to undertake purchases of BT shares subject to shareholder approval at the AGM
- we've no agreements with directors providing for compensation for loss of office or employment as a result of a takeover. Similarly, there's no provision for this in our standard employee contracts
- we aren't aware of any agreements between shareholders that may result in restrictions on the transfer of shares or on voting rights.



## Political donations

Our policy is that no company in the group will make contributions in cash or kind to any political party, whether by gift or loan. However, the definition of political donations used in the 2006 Act is very much broader than the sense in which these words are ordinarily used. For example, it could cover things like making members of parliament and others in the political world aware of key industry issues and matters affecting the company, enhancing their understanding of BT.

The authority for political donations we're requesting at the AGM isn't intended to change this policy. It will, however, ensure that the group continues to act within the provisions of the 2006 Act requiring companies to obtain shareholder authority before they make donations to EU political parties and/or political organisations as defined in the 2006 Act. During 2017/18, the company's wholly owned subsidiary, British Telecommunications plc, paid the costs of attending corporate days at (i) the Conservative party conference; (ii) the Labour party conference; and (iii) the Scottish National Party conference. These costs totalled £3,829 (2016/17: £6,870). No company in the BT group made any loans to any political party.

## Cross reference to the Strategic Report

In line with the Companies Act, we've chosen to include the following information in the **Strategic Report** (required by law to be included in the **Report of the Directors**):

- the final dividend proposed by the Board (page 120)
- an indication of likely future developments in the business of the company (see the **Strategic Report** on pages 1 to 130)
- an indication of our R&D activities (page 37)
- information about our people (page 43)
- information about greenhouse gas emissions (page 54).

By order of the Board

**Dan Fitz**  
Company Secretary  
9 May 2018