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BT Group plc ANNUAL REPORT & FORM 20-F 2011



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BOARD OF DIRECTORS AND OPERATING COMMITTEE

						
Sir Michael Rake Chairman	Ian Livingston Chief Executive	Tony Chanmugam Group Finance Director	Gavin Patterson Chief Executive BT Retail	Andrew Parker Company Secretary	Tony Ball	Clayton Brendish

Chairman

Sir Michael Rake Chairman^{d,e,f}

Sir Michael was appointed to the Board as Chairman on 26 September 2007. He also chairs the *Nominating & Governance Committee* and the *Committee for Sustainable & Responsible Business* and is a member of the *Pension Scheme Performance Review Group*. He was formerly chairman of KPMG International from 2002 to 2007, and previously held other roles in KPMG from 1972.

He is chairman of easyJet, a non-executive director of Barclays, where he chairs the audit committee, McGraw Hill and the Financial Reporting Council. Sir Michael's other appointments include vice-president of the RNIB, membership of the board of the TransAtlantic Business Dialogue, the CBI International Advisory Board and the National Security Forum. A Chartered Accountant, he was knighted in 2007 for his services to the accountancy profession. Aged 63.

Executive directors

Ian Livingston Chief Executive^{a,f}

Ian Livingston was appointed as Chief Executive on 1 June 2008. He chairs the *Operating Committee* and is a member of the *Pension Scheme Performance Review Group*. He was formerly Chief Executive of BT Retail from 7 February 2005 and Group Finance Director from April 2002. Before joining BT, he was group finance director of Dixons Group from 1997. He joined Dixons in 1991 after working for 3i Group and Bank of America International. His experience at Dixons spanned a number of operational and financial roles, both in the UK and overseas. He is a non-executive director of Celtic and chairman of the audit committee. He is a Chartered Accountant. Aged 46.

Tony Chanmugam Group Finance Director^a

Tony Chanmugam was appointed to the Board on 1 December 2008 as Group Finance Director and is a member of the *Operating Committee*. He was formerly Chief Financial Officer of BT Retail and Managing Director of BT Enterprises and, from 1997 to 2004, he was Chief Financial Officer and then Chief Operating Officer of BT Global Solutions. Tony was appointed a non-executive director and chairman of the audit committee of Barnet and Chase Farm Hospital Trust in April 2010. He is a Chartered Management Accountant. Aged 57.

Gavin Patterson

Chief Executive, BT Retail^{a,e}

Gavin Patterson was appointed to the Board on 1 June 2008 as Chief Executive BT Retail and is a member of the *Operating Committee*. He is also a member of the *Committee for Sustainable & Responsible Business*. He was formerly Managing Director, Consumer Division, BT Retail. He is a non-executive director of British Airways. Before joining BT, he was managing director of the consumer division of Telewest. Aged 43.

Company Secretary

Andrew Parker

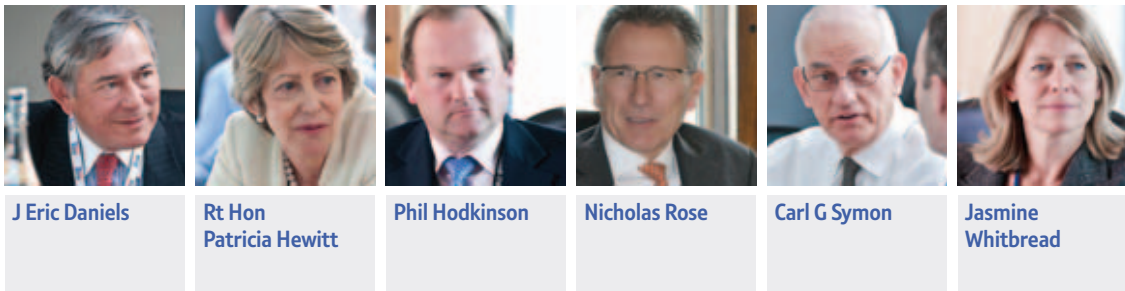
Andrew Parker, formerly General Counsel, BT Retail from 2004, was appointed Company Secretary on 1 April 2008. A solicitor, he has worked for BT since 1988 in a number of legal, regulatory and compliance roles. He is an employer-nominated trustee director of the BT Pension Scheme. Andrew previously worked in the City in legal private practice. Aged 51.

Operating Committee

Ian Livingston, Chief Executive
Tony Chanmugam, Group Finance Director
Sally Davis, Chief Executive, BT Wholesale
Jeff Kelly, Chief Executive, BT Global Services
Roel Louwhoff, Chief Executive, BT Operate
Gavin Patterson, Chief Executive, BT Retail
Clive Selley, Chief Executive, BT Innovate & Design

Key to membership of Board committees:

- ^a Operating
- ^b Audit & Risk
- ^c Remuneration
- ^d Nominating & Governance
- ^e Sustainable & Responsible Business
- ^f Pension Scheme Performance Review Group
- ^g Equality of Access Board



Non-executive directors

Tony Ball^{c,d}

Tony Ball was appointed to the Board on 16 July 2009. He is a member of the *Remuneration* and the *Nominating & Governance Committees*. He has held senior executive positions in broadcasting and telecommunications businesses in the UK, US and continental Europe. From 1999 to 2003 he was chief executive of BSkyB. He is chairman of the supervisory board of Kabel Deutschland. He is also a board member of the Olympic Delivery Authority London 2012 and a non-executive director of the Spanish cable company ONO. Aged 55.

Clayton Brendish^{b,d,e}

Clay Brendish was appointed to the Board on 1 September 2002. He is a member of the *Audit & Risk* and the *Nominating & Governance Committees*, and the *Committee for Sustainable & Responsible Business*. He is non-executive chairman of Anite, SThree, and Echo Research and non-executive director of Herald Investment Trust. He is also a trustee of Economist Newspapers. Prior to his retirement in 2001, Clay was executive deputy chairman of CMG having joined the board when it acquired Admiral. Clay was co-founder and executive chairman of Admiral. He also acted as an adviser to the Government on the efficiency of the Civil Service. Aged 64.

J Eric Daniels^{c,d}

Eric Daniels was appointed to the Board on 1 April 2008. He is a member of the *Remuneration* and the *Nominating & Governance Committees*. He was group chief executive of Lloyds Banking Group (formerly Lloyds TSB Group) until March 2011 having been a director since 2001. Immediately prior to joining Lloyds TSB Group, he was chairman and chief executive of Zona Financiera. Eric worked for Citibank from 1975 to 2000, becoming chief operating officer of Citibank's consumer bank, then chairman and chief executive of Travelers Life and Annuity following its merger with Citibank. Aged 59.

Rt Hon Patricia Hewitt^{b,c,d,f}

Patricia Hewitt was appointed to the Board on 24 March 2008 and became Senior Independent Director in July 2009. She chairs the *Remuneration Committee* and the *Pension Scheme Performance Review Group* and is a member of the *Audit & Risk* and the *Nominating & Governance Committees*. Patricia stepped down as an MP at the 2010 election. She joined Groupe Eurotunnel SA as an independent non-executive director in May 2010. She was Secretary of State for Health from 2005 to 2007 and previously Trade and Industry and Cabinet Minister for Women from 2001 to 2005. Before entering Parliament in 1997, she was director of research EMEA at Andersen Consulting (now Accenture) and deputy director of the Institute for Public Policy Research. A British and Australian dual national, she is aged 62.

Phil Hodkinson^{b,d,e,f}

Phil Hodkinson was appointed to the Board on 1 February 2006. He is chairman of the *Audit & Risk Committee* and is a member of the *Nominating & Governance Committee*, the *Committee for Sustainable & Responsible Business*, and the *Pension Scheme Performance Review Group*. He is a non-executive director of HM Revenue & Customs, Travelex, Resolution and Business in the Community, and a trustee of Christian Aid and BBC Children in Need. Prior to his retirement in 2007, Phil's roles included group finance director of HBOS, chairman of Insight Investment and Clerical Medical, and chief executive of Zurich Life and Eagle Star Life. He is a Fellow of the Institute of Actuaries. Aged 53.

Nicholas Rose^b

Nick Rose was appointed to the Board on 1 January 2011 and is a member of the *Audit & Risk Committee*. He has been a non-executive director of BAE Systems since February 2010 and retired as group finance director of Diageo in October 2010, having been on the board since joining in 1999. Prior to Diageo, Nick was a member of the board of GrandMet and in his early career spent 11 years with Ford Finance in a number of different roles. Nick was appointed chairman of Edwards Vacuum on 24 March 2011. Aged 53.

Carl G Symon^{b,c,g}

Carl Symon was appointed to the Board on 14 January 2002, and appointed chairman of the *Equality of Access Board* when it became operational on 1 November 2005. He is a member of the *Audit & Risk* and the *Remuneration Committees*. He retired from IBM in May 2001 after a 32-year career, during which he held senior executive positions in the US, Canada, Latin America, Asia and Europe. Carl is a non-executive director of BAE Systems and Rexam. He was formerly chairman of the HMV Group and a non-executive director of Rolls-Royce. A US national, he is aged 65.

Jasmine Whitbread^e

Jasmine Whitbread was appointed to the Board on 19 January 2011 and is a member of the *Committee for Sustainable & Responsible Business*. She was appointed chief executive of Save the Children International in 2010, having joined Save the Children in 2005. Jasmine held positions with Oxfam until 2005 and prior to this served as a managing director of Thomson Financial based in the US. A British and Swiss dual national, she is aged 47.

THE BOARD

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- Directors
- Governance and role of the Board
- Directors' powers to authorise conflicts of interest
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- New York Stock Exchange

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.

The BT Board is committed to operating in accordance with best practice in business integrity and ethics, whilst maintaining the highest standards of financial reporting and corporate governance. We believe that good corporate governance should not be a bureaucratic burden but should be clear and straightforward and support the business by providing it with simple guidelines for decision making and risk management.

Key activities

- With operations worldwide, the BT governance framework has to reflect diverse cultures and regulatory environments. During the year we reviewed our corporate governance framework.
- We have extended the role of the *Audit Committee* to reflect an increased focus on risk. The *Audit & Risk Committee* recommends to the Board the group's risk appetite and reviews its risk profile.
- We have extended the remit of the *Nominating Committee* (now the *Nominating & Governance Committee*) to give it the responsibility for oversight of governance and compliance issues.
- We also established five regional governance committees to have oversight of BT's group-wide governance policies across their region, particularly focusing on corporate governance and compliance, ethics, business principles, and data retention and protection.
- We have commented on many of the various recent consultations on governance, including those leading to the new UK Corporate Governance Code, and the associated Guidance on Board Effectiveness.

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 the 2011 financial year.

The **Business review** on pages 8 to 43 forms part of this report. The audited financial statements are presented on pages 91 to 150 and 155.

Corporate governance statement

We are committed to operating in accordance with best practice in business integrity and ethics and maintaining the highest standards of financial reporting and corporate governance. The directors consider that BT has, throughout the year, complied with the provisions set out in Section 1 of the 2008 Combined Code on Corporate Governance (the 'Code') and applied the main principles of the Code as described in pages 60 to 86 of this Report. The Code and associated guidance can be found on the Financial Reporting Council website at www.frc.org.uk/corporate/combinedcode.cfm

The Code was replaced in May 2010 by the UK Corporate Governance Code (the 'New Code') for financial years beginning on or after 29 June 2010. It is the intention of the directors to comply with the New Code and during 2011 we have sought to implement its provisions early as appropriate.

Directors

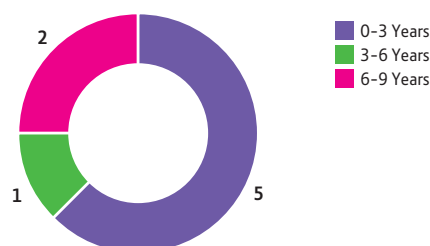
The names and biographical details of the directors are given on pages 60 and 61 in **Board of Directors and Operating Committee**.

Changes to the composition of the Board from 1 April 2010 are set out in the table below:

New directors	Date of appointment
Nick Rose	1 January 2011
Jasmine Whitbread	19 January 2011

Following a nine-year term as a director, Clay Brendish's current appointment will end on 31 August 2011 when he will retire from the Board.

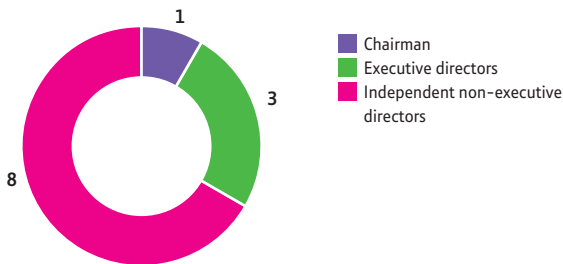
Length of tenure of non-executive directors



Governance and role of the Board

The Board, which operates as a single team, is made up of the part-time Chairman, the Chief Executive, two other executive directors and eight non-executive directors. All the non-executive directors during 2011 met, and continue to meet, the criteria for independence set out in the New Code and are therefore considered by the Board to be independent.

Board composition



Carl Symon and Nick Rose are both non-executive directors of BAE Systems plc and the Board has determined that, as they both serve in a non-executive capacity, they are independent for the purposes of paragraph A.3.1. of the Code (paragraph B.1.1 of the New Code).

The Board viewed the Chairman as independent at the time of his appointment. The Board comprised a majority of independent non-executive directors throughout 2011.

The Board is ultimately responsible for the management of the group's operations in addition to discharging certain legal responsibilities. It has final responsibility for the group's strategy and for overseeing the group's performance. Its principal focus is on:

- strategy
- development
- growing shareholder value
- oversight and control
- corporate governance.

It approves BT's:

- values, ethics and business policies and practices
- strategic plans
- annual budget
- capital expenditure and investments budgets
- larger capital expenditure proposals
- the overall system of internal controls, governance and compliance authorities.

The Board also oversees internal controls, operating and financial performance and reviews the risk register. These responsibilities are set out in a formal statement of the Board's role which is available at www.bt.com/board

The Board has agreed the corporate governance framework, including giving authority to the key management committee, the *Operating Committee*, to make decisions on operational and other matters. The roles and powers of this Committee are set out below.

The Board normally meets nine times each year. The Board met 10 times during the 2011 financial year.

The roles of the Chairman and the Chief Executive are separate. They are set out in written job descriptions, approved by the *Nominating & Governance Committee*. The Chairman provides

strong leadership for the Board on all aspects of its role. As well as chairing the Board, the Chairman consults the non-executive directors, particularly the Senior Independent Director, on corporate governance issues, matters considered by the *Nominating & Governance Committee*, which the Chairman chairs, and the individual performance of the non-executive directors. The Chairman, through the Company Secretary, ensures a full and comprehensive induction is provided to new non-executive directors. The Chairman and the non-executive directors hold regular meetings at which they discuss matters without the executive directors being present. With the Chief Executive and the Company Secretary, the Chairman ensures that the Board is kept properly informed, is consulted on all issues reserved to it and that its decisions are made in a timely and considered way that enables the directors to fulfil their fiduciary duties. The Chairman ensures that the views of the shareholders are known to the Board and considered appropriately. He represents BT in specified strategic and Government relationships, as agreed with the Chief Executive, and generally acts as the bridge between the Board and the executive team, particularly on BT's broad strategic direction. The Chairman's other current significant commitments are shown in **Board of directors and Operating Committee** on page 60. The Chief Executive has final executive responsibility, reporting to the Board, for the success of the group.

The Company Secretary manages the provision of timely, accurate and considered information to the Board for its meetings and, in consultation with the Chairman and Chief Executive, at other appropriate times. He recommends to the Chairman and the Chief Executive, for Board consideration where appropriate, corporate governance policies and practices and is responsible for communicating and implementing them. He advises the Board on appropriate procedures for the management of its meetings and duties (and the meetings of the main committees), as well as corporate governance and compliance within the group. The appointment and removal of the Company Secretary is a matter for the whole Board.

Directors' powers to authorise conflicts of interest

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 situations where directors may have any such conflicts, which require the Board to:

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

BT's non-executive directors

The *Nominating & Governance Committee* has agreed and reviews from time to time the combination of experience, skills and other attributes which the non-executive directors as a whole should bring to the Board. This profile is used by the Committee, when the appointment of a non-executive director is being considered, to assess the suitability of candidates. Short-listed candidates meet members of the Committee, which then recommends candidates to the Board for appointment. This year, following this process, the

Board appointed Nick Rose and Jasmine Whitbread, as new non-executive directors.

The non-executive directors provide a strong, independent element on the Board and are well placed to constructively challenge and help develop proposals on strategy. Between them, they bring experience and independent judgment, gained at the most senior levels of international business operations and strategy, finance, marketing, technology, communications and political and international affairs and corporate social responsibility. In her capacity as the Senior Independent Director, and as the chair of the *Remuneration Committee*, Patricia Hewitt meets regularly with BT's major institutional shareholders and shareholder representative bodies. She is able, if necessary, to discuss matters with these shareholders where it would be inappropriate for those discussions to take place with either the Chairman or the Chief Executive.

Non-executive directors are appointed initially for three years, subject to three months' termination notice from either BT or the director and automatic termination in the event of not being re-elected by shareholders. Appointments may be extended for usually up to two further three year periods, provided the director remains independent.

Carl Symon completed nine years of service in January 2011 and, in accordance with the New Code, the Board assessed whether Carl is independent of management and any business or other relationship that could materially interfere with the exercise of objective or independent judgment by him or his ability to act in the best interests of the group. The Board took into account the way he performs the role of chairing the Equality of Access Board (as described in **Main Board committees** below) which it considers evidence of Carl's independence by nature of the role performed. The Board concluded that Carl remains a valuable and effective independent non-executive director and he demonstrates the highest commitment to the role.

Each non-executive director is provided, upon appointment, with a letter setting out the terms of his or her appointment, including membership of Board committees, the fees to be paid and the time commitment expected from the director. The letter also covers such matters as the confidentiality of information and BT's share dealing code.

Main Board committees

The *Operating Committee*, the key management committee, meets weekly and is chaired by the Chief Executive. The other members are the Group Finance Director and the Chief Executives of BT Retail, BT Wholesale, BT Global Services, BT Innovate & Design and BT Operate. The Company Secretary attends all meetings and the Group HR Director normally attends the meetings. The Committee has collective responsibility for running the group's business. To do that, it develops BT's strategy and budget for Board approval, recommends to the Board capital expenditure and investment budgets, monitors financial, operational and customer quality of service performance, reviews the risk register and individual risks on it, allocates resources across BT within plans agreed by the Board, plans and delivers major programmes, and reviews the senior talent base and succession plans. Within BT's corporate governance framework, approved by the Board, the *Operating Committee* can approve, up to limits beyond which Board approval is required, capital expenditure, disposals of fixed assets, investments and divestments. It can, and has, delegated some of these approvals, up to its own limits, to sub-committees and to senior executives.

To meet best corporate governance practice, the *Audit & Risk Committee*, the *Remuneration Committee* and the *Nominating & Governance Committee* have long been an established part of BT's system of governance. Each committee has written terms of reference, which are available on our website. The **Report of the Audit & Risk Committee**, the **Report of the Nominating & Governance Committee** and the **Report on directors' remuneration** are on pages 65 to 81. The **Report of the Committee for Sustainable & Responsible business** is included on page 68. The *Equality of Access Board* (EAB), which is also a committee of the Board, was established, as part of the Undertakings given by BT to Ofcom following Ofcom's strategic review of telecommunications, to monitor, report and advise BT on BT's compliance with these Undertakings. As required by the Undertakings, the EAB comprises five members: Carl Symon, a BT non-executive director and chairman of the EAB; a BT senior executive, Dr Tim Whitley, Group Strategy Director (replacing Himanshu Raja, then Chief Financial Officer, BT Innovate & Design who has stepped down as a member of the committee); and three independent members: Sir Bryan Carsberg, Stephen Pettit and Dr Peter Radley. The EAB reports regularly to the Board. Its terms of reference are available on BT's website. The EAB publishes an annual report to Ofcom, which is also available on BT's website.

The Board also has a *Pension Scheme Performance Review Group*, which reviews the position of the BT Pension Scheme and issues affecting its ongoing funding.

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 have reviewed the NYSE's listing standards and believe that our corporate governance practices are consistent with them, with the following exception where we do not meet the strict requirements set out 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. During the year we renamed our Nominating Committee the *Nominating & Governance Committee* and extended its terms of reference to include governance and compliance issues (see **Report of the Nominating & Governance Committee** on page 67). 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, Sir Michael Rake, who is not considered independent under the NYSE's listing standards. The Board and the *Nominating & Governance Committee* are made up of a majority of independent, non-executive directors.

The Sarbanes-Oxley Act of 2002, (Sarbanes-Oxley) the US Securities and Exchange Commission (SEC) and NYSE introduced rules on 31 July 2005 requiring 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 are fully compliant with these requirements.

REPORT OF THE AUDIT & RISK COMMITTEE

Introduction

During the year the Committee undertook the annual review of its terms of reference. The review focused primarily on extending the Committee's role in relation to assurance and oversight of risk management within the group. Following this review the Committee was re-named the *Audit & Risk Committee* to emphasise its strengthened role in relation to risk.

The *Audit & Risk Committee* is chaired by Phil Hodgkinson. The other members are Clay Brendish, Patricia Hewitt, Nick Rose and Carl Symon. They are all independent non-executive directors. With the exception of Nick Rose who joined the Committee on 14 April 2011, they were all members of the Committee throughout the 2011 financial year. 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, Government, financial management, treasury and financial function supervision and that this constitutes a broad and suitable mix of business and financial experience. The Board has reviewed membership of the Committee and is satisfied that it includes members, Phil Hodgkinson and Nick Rose, who have recent and relevant financial experience as required for the provisions of the Code and that they constitute 'audit committee financial experts' for the purposes of the US Sarbanes-Oxley Act. The Committee met six times during the financial year: in April, May, July, September, November and January and the Chairman of the Committee reported on the discussions at the next Board meeting.

The Group Finance Director, Company Secretary, Director Internal Audit and Director Group Financial Control although not members of the *Audit & Risk Committee*, attend meetings with the agreement of the Chairman of the Committee. The external auditors normally attend meetings, although they are not present when the Committee discusses their performance and/or remuneration. The Committee members meet regularly with the external and internal auditors without management being present. The papers and minutes of the *Audit & Risk Committee* meetings are also sent to directors who are not members of the Committee.

Committee role

The Committee's terms of reference are available from the Company Secretary and are posted on our website at www.bt.com/committees. The Committee recommends the appointment and reappointment of the external auditors and considers their resignation or dismissal, recommending to the Board appropriate action to appoint new auditors. PricewaterhouseCoopers LLP have been the company's auditors for many years. Having reviewed the independence and effectiveness of the external auditors, the Committee has not considered it necessary to date to require them to tender for the audit. The external auditors are required to rotate the lead partner every five years, and other partners that are responsible for the group and subsidiary audits every seven years. The lead partner currently responsible for BT's audit is completing his second year. The Committee discusses with the auditors the scope of their audits before they commence, reviews the results and considers the formal reports of the auditors and reports the results of those reviews to the Board. The Committee reviews the auditors' performance each year by gathering feedback from Committee members and senior management, and by considering reports on the audit firm's own internal quality control procedures and assessment of independence. No contractual obligations exist that restrict the group's choice of external audit firm.

As a result of regulatory or similar requirements, it may be necessary to employ the external auditors for certain non-audit

services. In order to safeguard the independence and objectivity of the external auditors, the Board has determined policies as to what non-audit services can be provided by the external auditors and the approval processes related to them. Under those policies, work of a consultancy nature is not to be offered to the external auditors unless there are clear efficiencies and value-added benefits to the company. The overall policies and processes to implement them were reviewed and appropriately modified in the light of the provisions of the Sarbanes-Oxley Act relating to non-audit services that external auditors may not perform. The *Audit & Risk Committee* monitors the extent of non-audit services being performed by the external auditors and approves any services not included on the list of services the Committee has pre-approved before the work is undertaken. It also monitors the level of non-audit fees paid to the auditors. Details of non-audit services carried out by the external auditors are in note 7 in the **Notes to the consolidated financial statements** on page 114.

The *Audit & Risk Committee* reviews BT's published financial results, the Annual Report & Form 20-F and other published information for statutory and regulatory compliance. It reports its views to the Board to assist it in its approval of the results announcements and the Annual Report & Form 20-F.

The Committee also reviews the disclosures made by the Chief Executive and Group Finance Director during the certification process for the Annual Report about the design and operation of internal controls or weaknesses in the controls, including any fraud involving management or other employees who have a significant role in the company's financial controls. The Board, as required by UK law, takes responsibility for all disclosures in the Annual Report.

The *Audit & Risk Committee* reviews internal audit and its relationship with the external auditors, including plans and performance; and monitors, reviews and reports on risk management processes and the standards of risk management and internal control, including the processes and procedures for ensuring that material business risks, including risks relating to IT security, fraud and related matters, are properly identified and managed. Additionally the Committee reviews on behalf of the Board the group's risk profile, endorses a programme of testing of the risk mitigations and controls that underpin the group's assessment of residual risk and reviews the group's current risk exposure and capability to identify new risks.

The Committee reviews promptly all material reports on the company from the internal auditors and ensures that appropriate action is taken on issues arising from such reports, including monitoring management's responsiveness to the findings and recommendations of the internal auditors.

The *Audit & Risk Committee* reviews the processes for dealing with complaints received by the company regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters ('whistleblowing' procedures), ensuring arrangements are in place for the proportionate, independent investigation and appropriate follow up of such matters. The effectiveness of the 'whistleblowing process' as a whole and oversight of any complaints relating to governance matters is now reviewed by the *Nominating & Governance Committee* in line with its extended terms of reference.

During the 2011 financial year, the Committee placed particular emphasis on reviewing major contract management and accounting, and the management of risk.

Following the review of the Committee's terms of reference, each Line of Business and internal service unit Chief Executive will attend meetings to discuss the key risks in their part of the business and

the actions that are being taken to address them. The annual meeting schedule has also changed to include an additional meeting which will focus solely on risk and the Group Chief Executive will attend to discuss the group's enterprise-wide risk management processes, the top risks facing the group as a whole and the group's risk appetite. Following this session, the Committee will submit their conclusions and any recommendations to the Board. Risk management is also given special attention by the Committee, devoting a significant proportion of their time to risk at the July and January meetings.

Committee activities

The Committee regularly reviews with the Director Internal Audit and appropriate executives, the implementation and effectiveness of key operational and functional change and remedial programmes. The Committee also sets time aside at each meeting to seek the views of the internal and external auditors in the absence of management.

During 2011 the *Audit & Risk Committee's* business included consideration of the following:

Month	Consideration
April	<ul style="list-style-type: none"> • BT Global Services major contract review • Review of the internal control requirements under the Code including risk management processes • Sarbanes-Oxley Act update • Draft Annual Report & Form 20-F 2010 • Going concern considerations.
May	<ul style="list-style-type: none"> • Review of external audit and non-audit fees • The Annual Report & Form 20-F 2010, full year results, announcement and related formal statements • Corporation tax provisions • Review of the internal control requirements under Sarbanes-Oxley • Annual report on the performance of Internal Audit • Internal Audit year end Corporate Summary Report • Annual update on 'whistleblowing', litigation trends and major litigation report • External auditors' report.
July	<ul style="list-style-type: none"> • BT's risk management framework • BT Security and Anti-Trust update • First quarter results, announcement and related formal statements • External auditors' report
September	<ul style="list-style-type: none"> • Review of external auditors' effectiveness.
November	<ul style="list-style-type: none"> • Review of fees for audit and non-audit services • Half year results, announcement and related formal statements • Going concern assessment • External audit plan • BT Global Services major contracts review • Internal Audit Half-Year Performance Report • Review of internal control requirements under the Code and Sarbanes-Oxley • Annual review of Committee terms of reference • External auditors' report
January	<ul style="list-style-type: none"> • Internal Audit report • Risk management review update • Audit Committee effectiveness • Sarbanes-Oxley update • Third quarter results, announcement and related formal statements • External auditors' report • Annual review of accounting policies • BT Innovate & Design risk update.

The Committee also discussed the planning, conduct and conclusions of the external audit as it proceeded as explained below.

The Committee approved the auditor's group audit plan after discussion with them. The auditors explained the programme of work they planned to undertake to ensure that the identified risks did not lead to a material misstatement of the financial statements. Where they thought it would be effective to do so, this work included the evaluation and testing of the group's own internal controls. They also explained where they planned to obtain direct external evidence and were using experts to assist with their audit.

The Committee discussed these issues with them again at the time of their review of the half-year summary financial statements and again at the conclusion of their audit of the financial statements for the year. As they concluded the audit, they explained:

- the work they had done to test management's assumptions and estimates and how they had satisfied themselves that these were reasonable;
- they had reviewed the group's application of its accounting policies; and
- the results of their testing of the controls and other procedures carried out in the major overseas locations and the issues they had found there.

The auditors also reported to the Committee the misstatements that they had found in the course of their work and the Committee confirmed that there were no such material items remaining unadjusted in the financial statements.

The Committee evaluated its performance and processes by inviting Committee members, key executives and the external auditors to complete questionnaires. The results showed that the Committee continued to be effective in terms of both behaviours and processes.

REPORT OF THE NOMINATING & GOVERNANCE COMMITTEE

Introduction

During the year it was agreed that the Committee should be renamed the *Nominating & Governance Committee* and, in addition to its existing remit, examine governance and compliance issues. It was also agreed that five regional governance committees (RGCs) would be established as sub-committees of the Committee.

The *Nominating & Governance Committee* is chaired by the Chairman. The other members are Tony Ball, Clay Brendish, Eric Daniels, Patricia Hewitt and Phil Hodgkinson.

Five of its six members are independent non-executive directors. Although he is not independent, the Board believes that Sir Michael Rake, as Chairman of the Board, is the most appropriate person to chair the Committee. He would not participate in the selection and appointment of his successor. The Company Secretary and, where appropriate, at the invitation of the Chairman, the Chief Executive attend the Committee's meetings.

Committee role

The Committee's terms of reference are available from the Company Secretary and are posted on our website at www.bt.com/committees. The *Nominating & Governance Committee* ensures an appropriate balance of experience and abilities on the Board, reviews the size and composition of the Board and recommends any proposed changes to the Board.

It also determines and reviews BT's governance policies including corporate governance, ethics, business principles, international trading regulation issues and data protection. The Committee met four times during the 2011 financial year.

Committee activities

Nominating

The Committee keeps under review the need to refresh the Board, prepares a description of the specific experience and skills needed for an appointment, considers candidates who are put forward by the directors and external consultants, and recommends to the Board the appointments of all directors after having met short-listed candidates. It makes recommendations to the Board on whether to reappoint non-executive directors at the end of terms of office. It also reviews the time required from the Senior Independent Director and other non-executive directors to carry out their duties and advises the Board on succession planning for the positions of the Chairman, Deputy Chairman and/or Senior Independent Director, Chief Executive and all other Board appointments.

The Committee reviewed the make-up and size of the Board and its committees, the overall governance framework, considered a proposal for the annual re-election of all directors and the appointment of external facilitators to carry out the next Board evaluation.

The Committee recommended:

- the appointment of both Patricia Hewitt and Eric Daniels be extended for three years following the expiry of their respective initial three year terms
- the appointment of Nick Rose as a non-executive director to strengthen the Board capability in the assessment of audit and risk issues, as he had held senior executive positions in various industries
- the appointment of Jasmine Whitbread as a non-executive director to bring valuable experience to the Board on corporate responsibility, an area where she has held senior positions both in the UK and globally
- the appointment of Carl Symon be extended for one year following the expiry of a nine year term and having reviewed his independence
- the continuation of the Chairman in his role, having served for three years, following a review of his performance as part of the Board evaluation.

All appointments are subject to automatic termination in the event of a director not being re-elected by shareholders at the AGM.

Governance and compliance

The Committee receives regular reports on the effectiveness of and compliance with, BT's governance policies, reviews the corporate governance and decision making structure and processes throughout the group, including the regional approach to governance. It reviews the processes for, and effectiveness of, the whistleblowing procedures within BT and adopted a code of ethics for BT's Chief Executive, Group Finance Director and senior finance managers as required by the Sarbanes-Oxley Act. The Committee monitors corporate governance developments around the world and their impact on the business. It reviews the policy on where BT does business, the training and communication of governance and compliance, and the approach to appointments on subsidiaries and associated companies and conflicts of interest.

The Committee:

- recommended the formation of five RGCs namely: UK and Republic of Ireland; US and Canada; Latin America; Europe, Middle East and Africa; and AsiaPac and agreed their terms of reference;
- received a first report in relation to the establishment of each RGC;
- received a summary of the roll-out of BT's ethics "adequate procedures" programme; and
- reviewed the new whistleblowing procedures and confidential hotline.

The minutes of the *Nominating & Governance Committee* meetings are sent, at their request, to directors who are not members of the Committee, where appropriate to do so.

Board evaluation

A review was carried out in March and April 2010 by the Chairman and Company Secretary through a questionnaire and discussion and the results were discussed by the Board. A number of actions were implemented to address the points raised, namely:

- a review was undertaken of the composition of the Board and its Committees. A number of changes have been proposed which have been implemented;
- the remit of the *Audit & Risk Committee* has been extended to cover greater focus on risk management; and
- regular updates and training have been provided to the Board which have covered areas such as the UK Bribery Act 2010 and governance developments, and updates on particular areas of BT's business operations.

Following the Board evaluation, the Chairman reviewed the performance of each director and his own performance was reviewed by the Senior Independent Director in face-to-face meetings.

The Committee agreed that the next annual Board evaluation would be carried out using an external facilitator. Boardroom Review have been appointed and have begun a series of interviews which will lead to a report for discussion by the Board and an agreed set of actions.

A separate survey about *Audit & Risk Committee* effectiveness was also carried out and the outcome of the survey is in that Committee's report.

REPORT OF THE COMMITTEE FOR SUSTAINABLE & RESPONSIBLE BUSINESS

Introduction

The *Committee for Sustainable & Responsible Business* is chaired by the Chairman and comprises: Gavin Patterson, Chief Executive BT Retail; Larry Stone, President Group Public and Government Affairs; and Alex Wilson, Group Human Resources Director; three non-executive directors: Clay Brendish, Phil Hodgkinson and Jasmine Whitbread and three independent members: Lord Hastings, Baroness Jay and Dame Ellen MacArthur. Jonathon Porritt, chair of BT's external Leadership Advisory Panel (the Panel) of external sustainability experts, which provides advice on corporate responsibility (CR) issues, attends one meeting per year.

Committee role

With input and recommendations from executive management and advice from the Panel, the Committee sets the CR business strategy for the BT group globally (including wholly owned subsidiaries) for approval by the Board. The Committee reviews and agrees plans and targets, evaluates performance, oversees a culture of transparency and stakeholder accountability and distributes, within the approved budget, funding to support the strategy.

Committee activities

The Committee aims to ensure that BT's sustainable and responsible business practices are applied throughout the business, minimising any CR risks to BT's operations and reputation and maximising the opportunities to help create a better future. It encourages innovation and the development of new communications services to help create a more sustainable future for customers, employees and communities – in the UK and around the world. The Committee met four times in the 2011 financial year and reviewed:

- the CR strategy and key performance indicators;
- community and charity support programmes;
- the development of BT's volunteering and sustainability skills programmes;
- activities supporting BT's environment and climate change programmes; and
- proposals relating to the development of BT's low carbon economy ICT solutions.

The Committee made visits to a number of organisations in the 2011 financial year, including NSPCC, Childline, Cancer Research UK, ICAN, The Communication Trust and the Pennies Foundation.

The Committee has close links with the Panel. Jonathon Porritt attended the December meeting of the Committee. Gavin Patterson attends Panel meetings.

REPORT ON DIRECTORS' REMUNERATION

Overview

- As outlined in the Chairman's message, the executive team has made considerable progress in a challenging year, achieving or exceeding demanding objectives for profitability and cash generation. The Chief Executive was therefore awarded a bonus of 126% of target (79% of the maximum opportunity), compared with 142% of target (71% of the maximum) for the previous year. Half of the bonus will be paid in cash and the remaining half will be deferred into shares receivable in three years' time, subject to continued employment as well as a clawback condition. Whilst customer service improved during the year, the level of improvement was insufficient to justify a payment for that component of the annual bonus.
- During 2011 the Remuneration Committee reviewed the executive pay structure to ensure that it remains closely aligned to BT's corporate strategy and shareholders' interests. The Chair of the Committee led a consultation with major investors and representative bodies as part of the review.
- The Committee agreed to maintain our policy position of setting basic salaries below the median of our comparator group, so that executive directors can only achieve upper quartile total rewards for exceptional performance in line with stretching performance targets.
- As BT moves towards achieving profitable growth, alongside a continuing focus on customer service and cost transformation, the Committee decided to strengthen incentives for long-term performance. In particular, we will increase the element of the annual bonus dependent upon individual and role-specific performance aligned with our long-term strategy, and add a new measure of three-year revenue growth to the long-term incentive shares.
- We have reviewed base salaries and, where appropriate, increased them to bring them closer towards, but still below or around median levels in comparable companies. In making these decisions, we took account of the position of all BT's employees who will benefit from pay increases and annual bonuses based on the company's performance in 2011.
- BT's executive share plans reach the end of their 10-year life in October 2011. The Committee has agreed that renewed plans should be adopted, generally in the same form as the current plans but updated and amended to reflect best practice and current legislation. Shareholders will be asked to approve the adoption of the plans for a further 10 years at the 2011 Annual General Meeting.

Introduction

This report sets out the details of the remuneration policy for the company's directors and senior executives and the amounts paid to the directors in 2011. As well as meeting statutory requirements, the Remuneration Committee aims to comply with best practice guidelines and apply the principles of good corporate governance in producing this report. Relevant sections of this report have been audited in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

Shareholders will be asked to vote on this Report at the 2011 AGM.

Remuneration policy

This part of the Report on directors' remuneration is not subject to audit.

Remuneration principles

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

We believe in pay for performance. We aim to set base salaries below the median for our comparator group, while setting stretching goals for the annual bonus (including deferred shares) and the long-term incentive shares. It is only in return for sustained and excellent performance that the remuneration package as a whole will deliver upper quartile rewards.

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

In setting directors' remuneration, the Committee takes account of the remuneration of other companies of similar size, complexity and geographic reach. The Committee also takes into account the pay and employment conditions of all our employees. For instance, the overall increase in senior managers' pay for 2011 was comparable with the pay settlement offered to our employees generally, with some senior managers receiving no increase. Salary increases for the executive directors are given on page 78.

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

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

The Committee continues to keep under review the relationship of risk to remuneration and to seek input from the chairman of the *Audit & Risk Committee*. The largest single driver of on-target

remuneration remains cash flow (24% of the Chief Executive's total package), reflecting the importance of cash flow to invest in the business, reduce net debt, support the pension fund and pay progressive dividends. In deciding to include three-year revenue growth as a new measure for the long-term incentive shares, we considered carefully the possible risk of incentivising unprofitable revenue growth. We believe, however, that the continued inclusion of total shareholder return (TSR) and free cash flow performance measures, the inclusion of earnings per share (EPS) in the annual bonus plan and the Board's focus on profitable growth will sufficiently mitigate this risk.

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

The Committee has reaffirmed its position that the Board and Remuneration Committee have absolute discretion to reduce variable compensation in the light of risk and the Group's overall performance. We would only use this in exceptional circumstances.

Role of the Remuneration Committee

The Remuneration Committee is a formal committee of the Board and has powers delegated to it under the Articles of Association. Its remit is set out in the terms of reference formally adopted by the Board, which were last reviewed in December 2010.

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

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

Remuneration in 2011

The table below summarises the component parts of the remuneration package in 2011. This includes bonuses earned for performance during 2011, payouts received from and awards granted under the executive share plans.

	Ian Livingston	Tony Chanmugam	Gavin Patterson
Base salary	£892,000	£504,000	£521,000
Annual bonus			
Cash	£1,415,250	£604,350	£645,750
Deferred shares	726,514 shares ^a	232,680 shares ^a	248,620 shares ^a
Pension^b	£32,000	£151,000	£104,000
Other benefits	Company car, fuel or driver, personal telecommunications facilities, medical cover, financial planning		
Incentive shares – awarded	1,675,769 shares	707,546 shares	744,786 shares
– vested	–	–	–
– lapsed	1,499,425	155,818	735,010
Deferred shares – vested	142,312 shares	38,422 shares	58,931 shares
Shareholding requirement	200% salary	150% salary	150% salary

^a Awards of deferred shares are expected to be granted in June 2011. An indication of the number of shares to be granted has been calculated by using the share price (194.8p) on 6 May 2011.

^b Pension allowance paid in cash for 2011 – see Pensions on page 78.

The Board has reviewed compliance with the Combined Code on Corporate Governance on reward-related matters, and confirms that the company has complied with all aspects of the Code.

The Committee met six times during 2011. The Committee is chaired by Patricia Hewitt, the Senior Independent Director. The current members of the Committee are all independent non-executive directors. The other members who served during 2011 were:

- Eric Daniels
- Carl Symon
- Sir Michael Rake (member until 31 May 2010).

In addition, the Chairman and Chief Executive are invited to attend meetings, except when it would be inappropriate for them to be there, for example, when their own remuneration is discussed. Non-executive directors who are not members of the Committee are entitled to receive the papers discussed at meetings and the minutes. In view of the growing demands on remuneration committees from corporate governance requirements, the Committee has been strengthened by the addition of a new member, Tony Ball, with effect from 5 May 2011.

The Committee has received advice during the year from independent remuneration consultants, Towers Watson, who were appointed by the Committee. Towers Watson attended Committee meetings when major remuneration issues were discussed. Towers Watson also provide the company with consultancy services on general human resources (HR) and pensions issues. The Committee regularly consults the Chief Executive, the Group HR Director, the Director Reward and Employee Relations, and the Company Secretary.

The chair of the Committee meets major shareholders, the Association of British Insurers, Risk Metrics (RREV) and Pensions Investment Research Consultants Limited (PIRC) to discuss remuneration issues, on a regular basis.

The Committee reviews its own performance regularly and takes steps to improve its effectiveness.

Salaries

Salaries are reviewed annually but increases are made only where the Committee believes the adjustments are appropriate. In 2011 salaries of the directors were increased to reflect the contribution of the individual, increased responsibilities and market conditions.

Annual bonus

Executive directors are eligible for an annual bonus, based upon corporate performance targets, environmental, social and governance performance and achievement of personal and role-specific objectives. The structure of the annual bonus, approved by shareholders in 2008 and subsequently introduced in phases, is as follows:

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

Following our review, the Committee decided to leave this structure unchanged.

The deferred shares, which are based on the same performance criteria as the cash bonus, are, of course, subject to continued employment as well as to clawback, see **Clawback** on page 73.

Targets for the annual bonus are set at the beginning of the financial year. For 2011, the weighting of the bonus targets were set as follows:

STRUCTURE OF ANNUAL BONUS 2011	
ADJUSTED EARNINGS PER SHARE (EPS)	30%
	+
REPORTED FREE CASH FLOW	30%
	+
CUSTOMER SERVICE IMPROVEMENT	20%
	+
ENVIRONMENTAL, SOCIAL AND GOVERNANCE OBJECTIVES (ESG)	10%
	+
ROLE-SPECIFIC OBJECTIVES	10%
	=
TOTAL	100%

The scores for corporate performance targets for 2011 (see **Our strategy** on page 6) were as follows:

Measure (weighting)	Threshold	Target	Maximum	Actual
EPS (30%)	15%	30%	60%	60%
Free cash flow (30%)	15%	30%	60%	60%
Customer service (20%)	10%	20%	40%	0%
Sub-total				120%
ESG (10%)	5%	10%	20%	^a
Role-specific objectives (10%)	5%	10%	20%	^a

^a Performance is assessed on an individual basis.

The two financial targets (which together represent 60% of the bonus) have a direct impact on shareholder value, while customer service and broader objectives are vital to the company's long-term health and growth. We do not publish details of the EPS and cash flow targets, since these are market sensitive and commercially confidential. The Committee is, however, satisfied that the measures are appropriate and that the targets are properly stretching.

In calculating EPS for purposes of the annual bonus, volatile items which would be reported under IFRS are excluded. The impact of market movements in foreign exchange and financial instruments, plus the net finance expense or income relating to the group's pension liabilities, were excluded from the target.

Customer service is measured by rigorous and challenging 'right first time' metrics across each line of business. Although we will keep this measure under review, 'right first time' is directly linked to cost reductions as well as to customer satisfaction and is measured objectively. As explained by the Chief Executive in his introduction to the **Business review** on page 9, the company did not always deliver on its promises to customers during 2011; as a result, no payment for the customer service component of the annual bonus will be made.

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

In 2011 we introduced a new measure, worth 10% of the bonus, relating to individual performance against personal and role-specific objectives based on the company's strategic priorities.

Annual bonuses are paid in cash and deferred shares. Details of the bonuses for Ian Livingston, Tony Chanmugam and Gavin Patterson are set out in the table on page 77.

Annual bonuses are not pensionable.

Deferred shares

As shown in the table above, part of an executive director's annual bonus is deferred into shares. The number of shares under each award is calculated using the average market price of BT shares on the three dealing days preceding the date of grant.

The shares vest and are transferred to the executive after three years if they remain employed by the company. There are no additional performance measures for the vesting of deferred shares but they are subject to clawback. There is no subsequent matching of deferred shares. The Committee considers that awarding shares on a deferred basis acts as a retention measure and contributes to the alignment of management with the long-term interests of the shareholders.

The deferred share awards for previous years for Ian Livingston, Tony Chanmugam and Gavin Patterson at the end of 2011 are contained in the table on page 81.

Incentive shares

The Chief Executive received an award of incentive shares with a value equivalent to 2.5x salary (2010: 3x salary). Other executive directors received awards with a value of 2x salary (2010: 2.5x salary).

The details of all the awards of incentive shares held by Ian Livingston, Tony Chanmugam and Gavin Patterson at the end of the 2011 financial year are contained in the table on page 80. Awards of incentive shares granted in 2011 are given in the table on page 70.

Remuneration in 2012

During 2011 the Remuneration Committee reviewed the senior executive remuneration package, taking into account the challenges to the business, our strategic priorities, the need to ensure alignment with shareholders' interests and the other general principles on which we base executive pay. In particular, as BT moves towards achieving profitable growth, alongside a continuing focus on customer service and cost transformation, the Committee decided to strengthen incentives for long-term performance. As part of the review, we conducted an extensive and helpful consultation with institutional shareholders and representative bodies.

The Committee decided to implement the following changes in 2012:

- At present, incentive shares are based equally on relative total shareholder return (TSR) and three-year free cash flow. We will retain both measures, which are critical to delivering shareholder value. In order to increase the alignment of pay with our focus on long-term profitable growth, we will also introduce a further measure, worth 20%, based on long-term revenue growth. The remaining 80% will be split equally between TSR and free cash flow.
- The new revenue growth measure is based on underlying revenue excluding transit revenue as transit traffic is low-margin and is significantly affected by reductions in regulatory mobile termination rates which have no impact on the group's profitability.
- Our policy is to set measures for the incentive shares for free cash flow and long-term revenue growth so that they are appropriately stretching. The threshold performance level, which must be achieved before shares vest, is established above market expectations when targets are set and the maximum award is only available for outstanding performance. The Committee has decided that the revenue element of the award will begin to vest only if revenue in 2014 is higher than the baseline of 2011. In the face of a tough regulatory environment and intense competition, the Committee believes that the targets they have set for remuneration purposes are very challenging.
- In order to allow greater differentiation between individuals' contribution to the company's strategic priorities, we will increase the weighting in the annual bonus on personal and role-specific objectives aligned with our strategy. For the Chief Executive and Group Finance Director, corporate performance (EPS, free cash flow and customer service) will represent 75% of the scorecard; personal and role-specific objectives aligned with our strategy 15%, and ESG performance 10%. For the other executive director, 60% will be linked to corporate objectives, 15% to business unit objectives, 15% to personal objectives and 10% to ESG performance.
- In order to strengthen the alignment with shareholders' interests, the customer service element of the annual bonus will only be paid if the minimum EPS threshold is also achieved.

The Committee believes that the group performance targets for 2012 are very challenging.

The Committee has considered carefully the relationship of risk to remuneration. The Committee is satisfied that this spread of measurement criteria does not drive inappropriate and risky behaviour and that they are aligned to shareholders' interests.

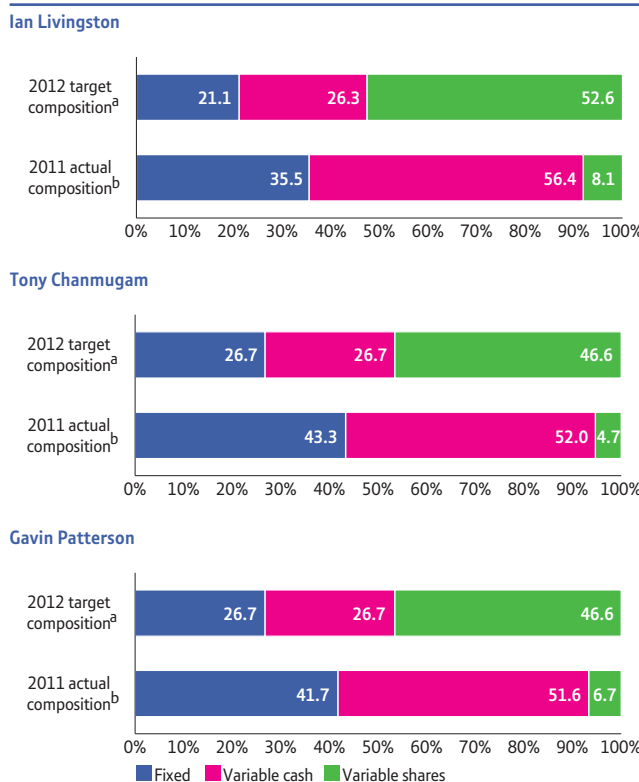
Base salaries have also been reviewed and, where appropriate, increased to bring them more closely towards, but still typically below or around, mid-market levels in comparable companies. In making these decisions, the Committee took account of the position of all BT's employees who will benefit from pay increases and annual bonuses based on the company's performance in 2011.

The structure of the annual bonus (cash and deferred shares) is unchanged for 2012. The value of awards of incentive shares is also unchanged for 2012.

No retention awards or share options will be granted.

Proportion of fixed and variable remuneration

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



^a Target remuneration comprises current base salary, on-target annual bonus and the expected value of awards under the deferred bonus and incentive share plans.
^b Actual remuneration comprises base salary, actual cash bonus and the value received from deferred shares and incentive shares (awards granted in 2007 and vested in 2010) during the financial year.

Long-term share-based incentives

Incentive shares

BT operates a long-term Incentive Share Plan (incentive shares), based on performance over three years. Shares only vest if the participant is still employed by BT and challenging performance measures have been met. For awards granted in 2008*, the vesting of awards was based entirely on TSR relative to a comparable group of companies; in 2009 and 2010, 50% of awards are based on relative TSR with the balance based on a three-year cumulative free cash flow measure. The use of a free cash flow measure for the long-

* For the grant of share awards and options, references to 2008, 2009, etc., are to the calendar year and not the financial year.

term incentive plan as well as for the annual bonus reflects the importance of cash generation over both the short and medium term.

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

The TSR comparator group for awards to be granted in 2011 comprises the following companies:

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

The TSR comparator group was the same for awards granted in 2010. In 2009, Cable & Wireless Worldwide replaced Cable & Wireless and TalkTalk replaced Carphone Warehouse.

The TSR for a company is calculated by comparing the return index (RI) at the beginning of the performance period with the RI at the end of the period. The RI is the TSR value of a company measured on a daily basis, as tracked by independent analysts, Datastream. It uses the official closing prices for a company's shares, adjusted for all capital actions and dividends paid. The initial RI is determined by calculating the average RI value taken daily over the three months prior to the beginning of the performance period; and the end value is determined by calculating the average RI over the three months up to the end of the performance period. This mitigates the effects of share price volatility. A positive change between the initial and end values indicates growth in TSR.

Historical vesting for executive share plans

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

For recent awards, both TSR and cash flow performance have improved when compared with the last five years and recent awards are projected to vest at higher levels than the awards for the period from 2004 to 2008 as shown below.

The following table shows the vesting levels of BT's incentive share awards and share options granted to executives since 2004.

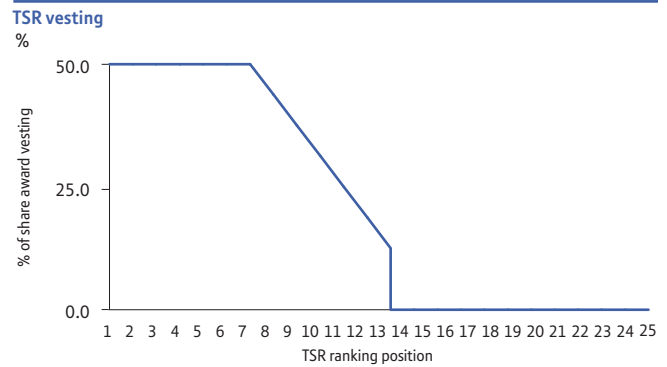
Year of grant	Performance period	Incentive shares percentage vesting	Share options percentage vesting
2004	2004-2007	55%	58%
2005	2005-2008	25%	-
2006	2006-2009	0%	-
2007	2007-2010	0%	-
2008	2008-2011	0%	-
Average annual vesting		16%	-

No share options have been granted since 2004.

At 31 March 2011, the TSR for the awards granted in 2008 was at 9th position against the comparator group of 15 companies. As a result, none of the shares will vest and all of the share awards have lapsed.

TSR vesting schedule for awards of incentive shares granted in 2009 and 2010

The following table shows the potential vesting of awards granted in 2009 and 2010 based on performance to date.



The remaining 50% of the awards of incentive shares are based on a three-year cumulative cash flow measure. For awards to be granted in 2011, there will be an additional measure of revenue growth over three years, which will form 20% of the measure. The TSR and cash flow measures will each be reduced to 40% of the total measure.

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

Clawback

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

Retention shares

Awards of retention shares are used by exception only and principally as a recruitment or retention tool. As a result, shares currently under award are not generally subject to a corporate performance target. The length of the retention period before awards vest is flexible, although this would normally be three years unless the Committee agrees otherwise. The shares are transferred at the end of the specified period if the individual is still employed by BT and any performance conditions are met. No awards of retention shares were made to executive directors, but one award was granted to a senior executive in the 2011 financial year.

Share options

No share options have been awarded under the Global Share Option Plan (GSOP) since 2004.

Details of options held by directors at the end of 2011 are contained in the table on page 79.

Renewal of executive share plans

The four executive share plans, the BT Group Incentive Share Plan, the BT Group Deferred Bonus Plan, the BT Group Retention Share

Plan and the BT Group Global Share Option Plan reach the end of their 10 year life in October 2011.

The Remuneration Committee has agreed that these plans, together the BT Executive Portfolio, should be renewed to deliver share awards as part of the senior executive remuneration package. Accordingly, shareholders will be asked to approve adoption of renewed plans at the AGM in 2011. The renewed plans will be in substantially the same form and have been updated to reflect changes in legislation, best practice and market developments. No material changes to the plans have been made.

Other share plans

The Chairman and executive directors may participate in BT's all-employee share plans, the Employee Sharesave Scheme, Employee Share Investment Plan (ESIP) and Allshare International, on the same basis as other employees. Details of these plans are disclosed in note 6 to the consolidated financial statements.

Dilution

Treasury shares are generally used to satisfy the exercise of share options, the grant of share awards and for the all-employee share plans. At the end of the 2011 financial year, treasury shares equivalent to 9% of the issued share capital would be required for these purposes. It is estimated that treasury shares equivalent to approximately 1% of the issued share capital will be required for all the employee share plans in 2012.

Other matters

Executive share ownership

The Committee believes that the interests of the executive directors should be closely aligned with those of shareholders. The deferred shares and incentive shares provide considerable alignment. The directors are encouraged to build up a shareholding in the company over time by retaining shares which they have received under an executive share plan (other than shares sold to meet a National Insurance or income tax liability) or from a purchase in the market. The Chief Executive is required to build up a shareholding of 2x salary and the remaining directors 1.5x salary. Progress towards meeting these targets has been made in 2011.

Current shareholdings are set out on page 76.

Pensions

The BT Pension Scheme (BTPS) closed to new entrants on 31 March 2001. None of the executive directors participates in future service accrual in the BTPS although Tony Chanmugam's pension is based on final salary. Executive directors who are members of the BTPS also benefit from a death in service lump sum of four times salary.

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

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

Other benefits

Other benefits for the Chairman and the senior management team include some or all of the following: company car, fuel or driver, personal telecommunications facilities and home security, medical

and dental cover for the director and immediate family, special life cover, professional subscriptions, and personal tax advice and financial counselling. The company has a permanent health insurance policy to provide cover for the Chairman and certain executive directors who may become permanently incapacitated.

Service agreements

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

Outside appointments

The Committee believes that there are significant benefits, to both the company and the individual, from executive directors accepting non-executive directorships of companies outside BT. The Committee will consider up to two external appointments (of which only one may be to the Board of a major company), for which a director may retain the fees. Ian Livingston receives an annual fee of £25,000 as a non-executive director of Celtic and an additional annual fee of £5,000 for chairing the audit committee. Tony Chanmugam is a non-executive director and chairman of the audit committee of Barnet and Chase Farm Hospital Trust, for which he receives an annual fee of £6,096 which is donated to charity. On 1 February 2011, Gavin Patterson was appointed as a non-executive director of British Airways for which he receives an annual fee of £50,000.

Non-executive directors' letters of appointment

Non-executive directors have letters of appointment. They are appointed for an initial period of three years. During that period, either party can give the other at least three months' notice. At the end of the period, the appointment may be continued by mutual agreement. Further details of appointment arrangements for non-executive directors are set out in **BT's non-executive directors** on page 63. The letters of appointment of non-executive directors are terminable on notice by the company without compensation. The letters of appointment are open for inspection by the public at the registered office of the company.

Non-executive directors' remuneration

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

The Board reviewed and increased the fees for the non-executive directors in January 2011. The fees had not previously been increased since January 2008. Increases in the fees were consistent with salary levels and increases for the broader employee population. The fees of the non-executive directors will be reviewed annually in the future.

The basic fee for non-executive directors is £62,000 per annum (2010: £60,000). There are additional fees for membership and chairing a Board committee, details of which are given in the table below:

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

Patricia Hewitt, as Senior Independent Director, chair of the Remuneration Committee, chair of the Pension Scheme Performance Review Group and a member of the Audit & Risk Committee, receives total fees of £159,500 per annum. Carl Symon

receives an additional annual fee of £72,500 as chairman of the Equality of Access Board (a Board committee).

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

To align further the interests of the non-executive directors with those of shareholders, the company's policy is to encourage these directors to purchase, on a voluntary basis, BT shares to the value of £5,000 each year. The directors are asked to hold these shares until they retire from the Board. This policy is not mandatory. Current shareholdings are shown on page 76.

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

Directors' service agreements and contracts of appointment

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

Chairman and executive directors	Commencement date	Expiry date of current service agreement or letter of appointment	
Sir Michael Rake I Livingston T Chanmugam G Patterson	26 September 2007 1 June 2008 1 December 2008 1 June 2008	The contract is terminable by the company on 12 months' notice and by the director on six months' notice.	
Non-executive directors			
C Brendish	1 September 2002		Letter of appointment was for an initial period of three years. The appointment was extended for three years in 2005 and by a further three years in 2008. The appointment will terminate on 31 August 2011. The appointment is terminable by the company or the director on three months' notice.
C G Symon	14 January 2002		Letter of appointment was for an initial period of three years. The appointment was extended for three years in 2005 and by a further three years in 2008. The appointment was extended in January 2011 for 12 months. The appointment will terminate on 13 January 2012. The appointment is terminable by the company or the director on three months' notice.
P Hodkinson	1 February 2006	Letter of appointment was for an initial period of three years. The appointment was extended for three years in 2009. The appointment is terminable by the company or the director on three months' notice.	
J E Daniels P Hewitt	1 April 2008 24 March 2008	Letters of appointment were for an initial period of three years and are terminable by the company or the director on three months' notice. The appointments were extended for three years in March 2011.	
T Ball	16 July 2009		Letter of appointment is for an initial period of three years. The appointment is terminable by the company or the director on three months' notice.
N Rose J Whitbread	1 January 2011 19 January 2011	Letters of appointment are for an initial period of three years. The appointments are terminable by the company or the director on three months' notice.	

There are no other service agreements or material contracts, existing or proposed, between the company and the directors.

There are no arrangements or understandings between any director or executive officer and any other person pursuant to which any director or executive officer was selected to serve. There are no family relationships between the directors.

Directors' interests

The interests of directors holding office at the end of the year, and their families, in the company's shares at 31 March 2011 and 1 April 2010, or at date of appointment if later, are shown below:

Beneficial holdings	Number of shares	
	2011	2010
Sir Michael Rake	109,710	108,362
I Livingston ^a	1,155,545	1,084,513
T Chanmugam ^a	224,416	205,629
G Patterson ^a	439,473	409,181
T Ball	15,000	15,000
C Brendish	44,670	41,920
J E Daniels	12,647	12,647
P Hewitt	12,391	10,554
P Hodgkinson	16,683	16,683
N Rose ^b	50,000	–
C G Symon	20,056	20,056
J Whitbread ^c	640	–
Total	2,101,231	1,924,545

^a Includes free shares awarded under the ESIP.

^b Nick Rose was appointed on 1 January 2011.

^c Jasmine Whitbread was appointed on 19 January 2011.

During the period from 1 April 2011 to 6 May 2011, there were no movements in directors' beneficial holdings.

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

Performance graph

This graph illustrates, as required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the performance of BT Group plc measured by TSR relative to a broad equity market index over the past five years. We consider the FTSE 100 to be the most appropriate index against which to measure performance for these purposes, as BT has been a constituent of the FTSE 100 throughout the five-year period, and the index is widely used. TSR is the measure of the returns that a company has provided for its shareholders, reflecting share price movements and assuming reinvestment of dividends.

BT's total shareholder return (TSR) performance vs the FTSE 100



31 March 2006 = 100

Source: Datastream

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

Remuneration review

The remainder of the Report on directors' remuneration is subject to audit.

Directors' emoluments

Directors' emoluments for the financial year 2011 were as follows:

	Basic salary and fees £000	Pension allowance net of pension contributions ^a £000	Total salary and fees £000	Annual bonus cash £000	Expense allowance £000	Other benefits excluding pension £000	Total 2011 £000	Total 2010 £000	Deferred shares ^b 2011 £000		2010 £000
Sir Michael Rake ^c	613	–	613	–	–	25	638	670	–	–	–
I Livingston ^c	892	32	924	1,415	–	20	2,359	2,105	1,415	1,206	–
T Chanmugam ^{c,d,e}	504	151	655	604	19	12	1,290	1,109	453	346	–
G Patterson ^{c,d}	521	104	625	645	19	11	1,300	1,133	484	365	–
T Ball	73	–	73	–	–	–	73	53	–	–	–
C Brendish	82	–	82	–	–	–	82	80	–	–	–
J E Daniels	76	–	76	–	–	–	76	75	–	–	–
P Hewitt	152	–	152	–	–	–	152	128	–	–	–
P Hodgkinson	102	–	102	–	–	–	102	100	–	–	–
N Rose ^f	16	–	16	–	–	–	16	–	–	–	–
C G Symon ^g	152	–	152	–	–	16	168	174	–	–	–
J Whitbread ^h	14	–	14	–	–	–	14	–	–	–	–
	3,197	287	3,484	2,664	38	84	6,270	5,627	2,352	1,917	
Termination payments											
H Lalani ⁱ							612	131			
							6,882	5,758			

^a Pension allowance paid in cash for 2011 – see 'Pensions' on page 78.

^b Deferred annual bonuses payable in shares in three years' time, subject to continued employment.

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

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

^e Tony Chanmugam was granted a retention cash award in early 2008 prior to his appointment as a director. He received a payment of £315,000 in May 2010.

^f Nick Rose was appointed as a director on 1 January 2011.

^g Includes an additional fee for regular travel to Board and Board committee meetings.

^h Jasmine Whitbread was appointed as a director on 19 January 2011.

ⁱ Hanif Lalani's contract was terminated on 11 January 2010. In accordance with his contract, his salary of £585,000 per annum and the value of his benefits to which he was entitled amounting to £195,000 per annum, continued to be provided until 10 January 2011.

The annual cash bonus awards for 2011 are not pensionable. Ian Livingston's bonus of £1,415,250 represented 157.25% of his current salary (2010: 142%), Tony Chanmugam's bonus of £604,350 represented 118.5% of his current salary (2010: 97%) and Gavin Patterson's bonus of £645,750 represented 123% of his current salary (2010: 97%).

Following this year's review of annual salaries, Ian Livingston's salary will be increased to £925,000 (2.8%), Tony Chanmugam's salary will be increased to £535,000 (4.9%) and Gavin Patterson's salary will be increased to £570,000 (8.6%). All increases will be effective from 1 June 2011.

Salary increases for direct reports to the Chief Executive (including the executive directors) were consistent with the salary increases for employees throughout the company.

Sir Michael Rake's salary was increased from £600,000 to £650,000 with effect from 1 January 2011, the first increase since his appointment as Chairman in September 2007. His salary will be reviewed again in January 2012. This increase is consistent with salary increases for employees over the same period.

Former directors

Sir Peter Bonfield received under pre-existing arrangements, a pension of £403,745 in 2011 (2010 £394,283).

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

Deborah Lathen retired as a director on 31 January 2010 and she received an annual fee of US\$70,000 (£42,000) as a consultant to BT.

Hanif Lalani, who resigned as a director on 7 January 2010, will receive a deferred pension under the BTPS on his 60th birthday.

Loans

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

Pensions

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

Ian Livingston is not a member of any of the company pension schemes, but the company has agreed to pay an annual amount equal to 30% of his salary towards pension provision. The company paid £234,750 into his personal pension plan, plus a cash payment of £32,250 representing the balance of the pension allowance for the 2011 financial year. BT also provides him with a death in service lump sum benefit of four times his salary.

Tony Chanmugam is a member of the BTPS but has opted out of future pensionable service accrual. The company pays him an annual allowance equal to 30% of salary towards pension provision. A cash payment of £151,250 was made for him for the 2011 financial year. BT also provides him with a death in service lump sum benefit of four times his salary.

Gavin Patterson receives an annual allowance equal to 30% of salary towards pension provision. Of this amount, £52,080 was paid as an employer contribution into the BTRSS and the balance of £104,160 was paid as a cash payment for the 2011 financial year. BT also provides him with a death in service lump sum benefit of four times his salary plus a widow's pension of 30% of his capped salary.

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

Increases in pension benefits at 31 March 2011

	Accrued pension		Transfer value of accrued benefits		Change in transfer value c-d less director's contributions	Additional accrued benefits earned in the year	Transfer value of increase in accrued benefits in e less director's contributions
	2011 £000 ^a	2010 £000 ^b	2011 £000 ^c	2010 £000 ^d			
T Chanmugam ^g	191	180	4,197	3,536	661	3	51

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

^{a-b} The values represent the deferred pension to which he would have been entitled had he left the company on 31 March 2011 and 2010, respectively.

^c Transfer value of the deferred pension in column (a) as at 31 March 2011 calculated on the basis of actuarial advice in accordance with relevant legislation. The transfer value represents a liability of the BTPS rather than any remuneration due to the individual, and cannot be meaningfully aggregated with annual remuneration, as it is not money the individual is entitled to receive.

^d The equivalent transfer value but calculated as at 31 March 2010 on the assumption that the director left the company on that date.

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

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

^g Tony Chanmugam's contributions in the financial year 2011 were £nil (2010: £nil).

Share options held at 31 March 2011, or date of appointment if later

	Number of shares under option				31 March 2011	Option price per share	Usual date from which exercisable	Usual expiry date
	1 April 2010 or date of appointment if later	Granted	Lapsed	Exercised				
Sir Michael Rake	12,110 ^a	–	–	–	12,110	68p	01/08/2012	01/02/2013
	–	1,485 ^b	–	–	1,485	104p	01/08/2015	01/02/2017
I Livingston	12,110 ^a	–	–	–	12,110	68p	01/08/2012	01/02/2013
T Chanmugam	37,384 ^c	–	–	–	37,384	192p	24/06/2007	24/06/2014
	12,110 ^a	–	–	–	12,110	68p	01/08/2012	01/02/2013
G Patterson	98,178 ^c	–	–	–	98,178	192p	24/06/2007	24/06/2014
Total	171,892	–	–	–	173,377			

All of the above options were granted for nil consideration.

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

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

^c Options granted under the GSOP on 24 June 2004. The exercise of options was subject to a performance measure being met. The performance measure is relative TSR compared with a group of 20 companies from the European Telecom Sector as at 1 April 2004. BT's TSR had to be in the upper quartile for all the options to become exercisable. At median, 30% of the options would be exercisable. Below that point none of the options could be exercised. The three-year performance period ended on 31 March 2007. At that date, the company was at 8th position against the comparator group and as a result, 42% of each options lapsed and 58% of each option became exercisable on 24 June 2007.

Note: Hanif Lalani, a former director who left the company on 31 March 2010, had an option over 90,625 shares with an option price of 192p per share and an option over 105,264 shares at 199.5p per share, which were preserved until 31 March 2011. Both options lapsed on 31 March 2011.

The market price of BT shares at 31 March 2011 was 185.6p (2010: 123.9p) and the range during 2011 was 109.9p to 191.1p (2010: 79.7p – 149.6p).

Share awards under long-term incentive plans held at 31 March 2011, or date of appointment, if later

Details of the company's ordinary shares provisionally awarded to directors, as awards of incentive shares are as follows:

	1 April 2010	Awarded	Dividends re-invested	Vested	Lapsed	Total number of award shares 31 March 2011	Vesting date	Price on grant	Market price at vesting	Monetary value of vested award £000
I Livingston										
2008 ^a	1,433,332	–	66,093	–	1,499,425	–	31/3/2011	203p	–	–
2009 ^b	2,037,329	–	93,945	–	–	2,131,274	31/3/2012	128.41p	–	–
2010 ^c	–	1,675,769	77,273	–	–	1,753,042	31/3/2013	134.26p	–	–
T Chanmugam										
2008 ^a	148,951	–	6,867	–	155,818	–	31/3/2011	203p	–	–
2009 ^b	948,755	–	43,749	–	–	992,504	31/3/2012	128.41p	–	–
2010 ^c	–	707,546	32,626	–	–	740,172	31/3/2013	134.26p	–	–
G Patterson										
2008 ^b	702,612	–	32,398	–	735,010	–	31/3/2011	203p	–	–
2009 ^b	998,689	–	46,051	–	–	1,044,740	31/3/2012	128.41p	–	–
2010 ^c	–	744,786	34,343	–	–	779,129	31/3/2013	134.26p	–	–

^a Awards granted on 25 June 2008. 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. The awards would vest subject to meeting a performance condition, on 31 March 2011. The performance measure was relative TSR compared with a group of 15 companies from the European Telecom Sector as at 1 April 2008. BT's TSR had to be in the upper quartile for all the shares to vest. At median, 25% of the shares would vest. Below that point, no shares would vest. At 31 March 2011, BT's TSR was at 9th position against the comparator group. As a result all of the awards lapsed on that date.

^b Awards granted on 7 August 2009. The number of shares subject to awards was calculated using the average middle market price of a BT share for the three days prior to the grant. 50% of each award of shares is linked to TSR compared with a group of 25 companies and 50% is linked to a three-year cumulative free cash flow measure. The awards will vest subject to meeting the two performance conditions, on 31 March 2012.

^c Awards granted on 25 June 2010. The number of shares subject to awards was calculated using the average middle market price of a BT share for the three days prior to the grant. 50% of each award of shares is linked to TSR compared with a group of 25 companies and 50% is linked to a three-year cumulative free cash flow measure. The awards will vest subject to meeting two performance conditions, on 31 March 2013.

Vesting of outstanding awards of incentive shares

	Vesting date	31 March 2011				31 March 2010			
		Free cash flow position	Percentage of shares vesting	TSR position	Percentage of shares vesting	Free cash flow position	Percentage of shares vesting	TSR position	Percentage of shares vesting
2007 ^a	31/3/2010	N/A	N/A	14	0%	–	–	14	0%
2008 ^b	31/3/2011	N/A	N/A	9	0%	–	–	14	0%
2009 ^c	31/3/2012	100%	50%	4	50%	100%	50%	10	31%
2010 ^d	31/3/2013	100%	50%	2	50%	100%	50%	–	–

^a The performance period for the 2007 awards ended on 31 March 2010. BT's TSR position was at 14th position against the European Telecom Sector of 15 companies. As a result, all the shares lapsed on that date.

^b The performance period for the 2008 awards ended on 31 March 2011. BT's TSR position was at 9th position against the European Telecom Sector of 15 companies. As a result all the shares lapsed on that date.

^c The performance period for the 2009 awards ends on 31 March 2012. 50% of each award of shares is linked to TSR; and 50% is linked to a three-year cumulative free cash flow measure. (See Long-term share-based incentives on page 72). The awards will vest subject to meeting the two performance conditions on 31 March 2012.

^d The performance period for the 2010 awards ends on 31 March 2013. 50% of each award of shares is linked to TSR; and 50% is linked to a three-year cumulative free cash flow measure. (See Long-term share-based incentives on page 72). The awards will vest subject to meeting the two performance conditions on 31 March 2013.

Note: For awards granted in 2009 and 2010, the vesting level is the anticipated level based on performance to date.

Deferred share awards at 31 March 2011, or date of appointment, if later

The following deferred share awards have been granted to the directors. These shares will normally be transferred to participants at the end of the three-year deferred period if those participants are still employed by BT Group.

	1 April 2010	Awarded ^a	Dividends re-invested	Vested	Lapsed	Total number of award shares 31 March 2011	Vesting date	Price at grant	Market price at vesting	Monetary value of vested award £000
I Livingston	142,312	–	–	142,312	–	–	1/8/2010	321.67p	142p	£202
	226,946	–	10,464	–	–	237,410	1/8/2011	203p	–	–
	274,358	–	12,650	–	–	287,008	1/8/2012	128.41p	–	–
	–	898,212	41,417	–	–	939,629	1/8/2013	134.26p	–	–
T Chanmugam	38,422	–	–	38,422	–	–	1/8/2010	321.67p	142p	£55
	53,357	–	2,459	–	–	55,816	1/8/2011	203p	–	–
	61,529	–	2,836	–	–	64,365	1/8/2012	128.41p	–	–
	–	258,431	11,916	–	–	270,347	1/8/2013	134.26p	–	–
G Patterson	58,931	–	–	58,931	–	–	1/8/2010	321.67p	142p	£84
	92,611	–	4,269	–	–	96,880	1/8/2011	203p	–	–
	96,832	–	4,464	–	–	101,296	1/8/2012	128.41p	–	–
	–	272,033	12,543	–	–	284,576	1/8/2013	134.26p	–	–
Former Director										
H Lalani ^b	124,691	–	–	124,691	–	–	1/8/2010	321.67p	142p	£177
	105,374	–	4,858	–	–	110,232	1/8/2011	203p	–	–

^a Awards granted on 25 June 2010 in respect of the 2010 financial year. 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.

^b Hanif Lalani left the company on 31 March 2010. His award of 110,232 shares was pro-rated and will vest on 1 August 2011.

Details of awards of deferred shares in respect of the 2011 financial year are given in the table on page 77. The number of shares subject to the awards will be calculated using the average middle market price of a BT share for the three days prior to the grant. It is expected that awards will be granted in June 2011.

Share awards under the Employee Share Investment Plan (ESIP) at 31 March 2011, or at date of appointment, if later

	Total number of shares 31 March 2011
I Livingston	363
T Chanmugam	679
G Patterson	247

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

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

By order of the Board

Rt Hon Patricia Hewitt
Chair of Remuneration Committee

11 May 2011

DIRECTORS' INFORMATION

Election and re-election

All directors are required by BT's Articles of Association to be elected by shareholders at the first annual general meeting (AGM) after their appointment, if appointed by the Board. A director must subsequently retire by rotation at an AGM at intervals of not more than three years. The director may seek re-election.

Nick Rose and Jasmine Whitbread, having been appointed as directors by the Board, will retire at the 2011 AGM and will be proposed for election. In line with the New Code, the Board has decided that all other directors except Clay Brendish, will be proposed for re-election. Clay, whose appointment will end on 31 August 2011 will then retire from the Board. Details of these directors' contracts/letters of appointment are included in the **Report on directors' remuneration**.

The chairman reviewed the performance of each director and found that each of them makes an effective contribution to the deliberations of the Board and continues to demonstrate commitment to the role. The Chairman's performance was reviewed by the senior independent director.

Meetings attendance

The following table shows the attendance of directors at meetings of the Board and *Audit & Risk, Nominating & Governance* and *Remuneration Committees* during the 2011 financial year.

	Board	Audit & Risk Committee	Nominating & Governance Committee	Remuneration Committee
	Number of meetings held			
	10	6	4	6
	Number of meetings attended (maximum possible)			
Sir Michael Rake ^a	9 (10)	–	4 (4)	1 (1)
Ian Livingston	10 (10)	–	–	–
Tony Chanmugam	10 (10)	–	–	–
Gavin Patterson	10 (10)	–	–	–
Clay Brendish	9 (10)	6 (6)	4 (4)	–
Carl Symon	10 (10)	6 (6)	–	6 (6)
Phil Hodgkinson	9 (10)	6 (6)	3 (4)	–
Patricia Hewitt	8 (10)	6 (6)	3 (4)	6 (6)
Eric Daniels	9 (10)	–	4 (4)	6 (6)
Tony Ball	10 (10)	–	4 (4)	–
Nick Rose ^b	2 (2)	–	–	–
Jasmine Whitbread ^c	2 (2)	–	–	–

^a Sir Michael Rake ceased to be a member of *Remuneration Committee* on 31 May 2010.

^b Nick Rose was appointed to the Board on 1 January 2011.

^c Jasmine Whitbread was appointed to the Board on 19 January 2011.

The Board keeps under review the level of attendance, and contribution by directors at Board meetings and the Chairman meets with non-executive directors on an individual basis.

Service agreements

The Chairman and executive directors have service agreements, the terms of which are approved by the *Remuneration Committee*. Information about the periods of these contracts is in the **Report on directors' remuneration**.

Training and information

On appointment, directors take part in an induction programme when they receive information about BT, the role of the Board and the matters reserved for its decision, the terms of reference and membership of the main Board committees, and the powers delegated to those committees, BT's corporate governance policies and procedures, including the powers reserved to the group's most senior executives, and the latest financial information. Since

appointment in January 2011, Nick Rose and Jasmine Whitbread have met with the Operating Committee members. They have also had a series of meetings with other key senior executives across the company and in relation to committee memberships, specific briefings have taken place.

Directors are continually updated on BT's business, the competitive and regulatory environments in which it operates, technology and corporate responsibility matters and other changes affecting BT and the communications industry as a whole, by written briefings and meetings with senior BT executives. The Board has an annual strategy meeting, with regular reviews during the year. Directors are also advised on appointment of their legal and other duties and obligations as a director of a listed company, both in writing and in face-to-face meetings with the Company Secretary. They are reminded of certain obligations each year and they are also updated on changes to the legal, accounting and governance requirements affecting the company and themselves as directors. During the 2011 financial year, for example, the Board received briefings on changes to UK company law and on various corporate governance matters through regular Secretary's Reports. The Chairman also sends a weekly email to non-executive directors which includes topical sector highlights and updates on key business activities.

Guidelines govern the content, presentation and delivery of papers for each Board meeting, so that the directors have enough information to be properly briefed sufficiently far ahead of each Board meeting and at other appropriate times, and to take account of their duties as directors.

Independent advice

The Board has a procedure for directors, in carrying out their duties, to take independent professional advice if necessary, 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 purchased insurance to cover the directors and officers of BT Group plc and its subsidiaries (and the BT nominated directors of associated companies and joint ventures) against defence costs and civil damages awarded following an action brought against them in that capacity. The insurance operates to protect the directors and officers directly in circumstances where by law BT cannot provide an indemnity and also provides BT, subject to a retention, with cover against the cost of indemnifying a director or officer. One layer of the programme is ringed-fenced for the directors of BT Group plc. The cover has been extended to provide limited cover for civil fines and penalties. At the date on which this report was approved, and throughout the 2011 financial year, the company's wholly owned subsidiary, British Telecommunications plc, has provided an indemnity in respect of a similar group of people who would be covered by the above insurance. Neither the insurance nor the indemnity provides cover where the person has acted fraudulently or dishonestly.

Interest of management in certain transactions

During and at the end of the 2011 financial year, none of BT's directors was materially interested in any material transaction in relation to the group's business and none is materially interested in any presently proposed material transactions.

BUSINESS POLICIES

Responsible business

Our Statement of Business Practice: *'The Way We Work'* (*TWWW*) has been in place for more than 10 years. This covers all our operations and applies worldwide to all employees, and to all agents and contractors when representing BT, and is available in 11 languages. It is supported by a number of ethical policies, including Anti-Corruption and Bribery, Gifts and Hospitality and Charitable Donations and Sponsorship; as well as guidance on ethical issues. All employees and contractors are required to sign up to *TWWW* and our Anti-Corruption and Bribery Policy. Our suppliers are also expected to comply with the principles set out in *TWWW* and our ethical policies.

We operate a Gifts and Hospitality recording system for our employees to register and approve all gifts and business entertainment given and received. We are committed to high ethical standards and legal compliance in all aspects of our business. We have measured our employee awareness of *TWWW* and the extent to which our employees display ethical behaviour; and our performance measures on ethics track our policies. We have also conducted an independent culture survey to assess ethical behaviours within our business and to help us to build on our global culture for the coming year.

Through our Sourcing with Human Dignity initiative, we seek to ensure that working conditions throughout our supply chain meet internationally recognised human rights standards. We investigate potential social and environmental shortcomings and are committed to achieving 100% follow-up within three months for all suppliers identified as high or medium risk. During 2011 we completed 34 on-site assessments (2010: 32). The majority of assessments were conducted in China as well as in Vietnam, Turkey, Sri Lanka, the UK, Ukraine and Spain. We now employ our own assessor based in Shanghai, which has enabled us to focus our efforts on suppliers in China. We work with our suppliers to help them improve their performance. In 2011 86% of our suppliers agreed that we work with them to ensure our purchases are made, delivered, used and disposed of in a socially and environmentally responsible manner.

The principles in *TWWW* and our ethical policies are supported by a continuing and comprehensive communication programme and training. A dedicated ethics helpdesk is available to employees who have questions or would like guidance about our ethical policies. We also provide a confidential helpline so people can report any ethical concerns. BT's Undertakings code of practice (*It matters*) forms part of our statement of business practice and is consistent with it.

We are committed to managing our environmental performance. BT's environmental management system within the UK has been certified to the international standard ISO 14001 since 1999. Since then we have extended our main certification to include Belgium, Ireland, Germany and the Netherlands. BT Italy and BT Spain hold their own individual ISO 14001 certifications.

A Board committee – the *Committee for Sustainable & Responsible Business* – chaired by Sir Michael Rake and comprising three BT senior executives, three non-executive directors and three independent members – oversees our corporate responsibility, environment and community activities, including charitable expenditure and the strategy for maximising our contribution to society. More information is available in **Business review – Our corporate responsibility** on page 36. The **Report of the Committee for Sustainable & Responsible Business** is on page 68.

Political donations

Our continuing 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 Companies Act 2006 (the 2006 Act) is very much broader than the sense in which these words are ordinarily used. It may cover activities such as making MPs and others in the political world aware of key industry issues and matters affecting the company, which make an important contribution to their understanding of BT. These activities have been carried out on an even-handed basis, related broadly to the major UK political parties' electoral strength. The authority we are requesting at the AGM is not designed to change the above policy. It will, however, ensure that BT continues to act within the provisions of the 2006 Act requiring companies to obtain shareholder authority before they can make donations to EU political parties and/or political organisations as defined in the 2006 Act. During 2011, the company's wholly-owned subsidiary, British Telecommunications plc, made the following payments totalling £11,935 (2010: £14,952) to cover, for example, the cost of hosting briefing meetings with MPs and MEPs about the company's activities: Labour Party £2,000; Conservative Party £3,686; Liberal Democrats £600; Scottish National Party £4,650 and Plaid Cymru £999. No loans were made to any political party by any company in the BT group.

Pension funds

BT's two main UK pension arrangements – the BT Pension Scheme (BTPS) and the BT Retirement Saving Scheme (BTRSS) – are not controlled by the Board but by a separate and independent corporate trustee for the BTPS and a management committee for the BTRSS. The Trustee of the BTPS looks after the assets of the funds, which are held separately from those of the company. For BTRSS members, each member has an individual personal pension secured with an insurance company (Standard Life). Pension funds' assets can be used only in accordance with their respective rules and for no other purpose. More information on the BTPS is included in note 23 to the consolidated financial statements.

Financial statements

So far as each of the directors is aware, there is no relevant information that has not been disclosed to the auditors and 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.

A statement by the directors of their responsibilities for preparing the financial statements is included in the **Statement of directors' responsibility** on page 88. The directors' statement on going concern is included in the **Financial review** on page 54.

Takeover Directive disclosure

Following the implementation of the EU Takeover Directive by certain provisions of the 2006 Act, we are required to make additional disclosures. A number of these disclosures can be found elsewhere in this Report as set out below:

- structure of BT's share capital (refer to page 137) including the rights and obligations attaching to the shares (refer to pages 167 to 170)
- restrictions on the transfer of BT shares and voting rights (refer to pages 167 and 168)
- significant direct or indirect shareholdings (refer to page 86)
- appointment and replacement of directors (refer to page 169).

The disclosures which are not covered elsewhere in this Report include the following:

- BT has two employee share ownership trusts which hold BT shares for the purpose of satisfying awards made under the 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, and if there is an offer for the shares or other transaction which would lead to a change of control of BT, participants may direct it 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, and if there is an offer for the shares the trustee is not obliged 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
- we are not aware of any agreements between shareholders that may result in restrictions on the transfer of shares or on voting rights
- 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 not less than 48 hours before a general meeting (see also page 167)
- the amendment of BT's Articles of Association requires shareholder approval in accordance with legislation in force from time to time
- the powers of the directors are determined by UK legislation and the Articles of Association. They are authorised to issue and allot shares, and to undertake purchases of BT shares subject to shareholder approval at the AGM
- BT Group plc is not party to any significant agreements that take effect, alter or terminate upon a change of control following a takeover
- we do not have any agreements with directors providing for compensation for loss of office or employment that occurs because of a takeover. There is similarly no such provision in standard contracts for employees.

Financial instruments

Details of the 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 29 on pages 139 to 149.

Internal control and risk management

The Board is responsible for the group's systems of internal control and risk management and for reviewing each year the effectiveness of those systems. Such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives; any system can provide only reasonable, and not absolute, assurance against material misstatement or loss. The process in place for reviewing BT's systems of internal control includes procedures designed to identify and evaluate failings and weaknesses, and, in the case of any categorised as significant, procedures exist to ensure that necessary action is taken to remedy the failings.

The Board also takes account of significant social, environmental and ethical matters that relate to BT's businesses and reviews annually BT's corporate responsibility policy. The company's workplace practices, specific environmental, social and ethical risks and opportunities and details of underlying governance processes are dealt with in the **Business review – Our resources** on page 19.

We have enterprise-wide risk management processes for identifying, evaluating and managing the significant risks faced by the group. These processes have been in place for the whole of the 2011 financial year and have continued up to the date on which this document was approved. The processes are in accordance with the Revised Guidance for Directors on the Combined Code published by the Financial Reporting Council (the Turnbull Guidance).

Risk assessment and evaluation takes place as an integral part of BT's annual strategic planning cycle. We have a detailed risk management process, culminating in a Board review, which identifies the key risks facing the group and each business unit. This information is reviewed by senior management as part of the strategic review. Our current key risks are summarised in **Business review – Our risks** on pages 40 and 43.

The key features of the enterprise-wide risk management and internal control process comprise the following procedures:

- senior executives collectively review the group's key risks and have created a group risk register describing the risks, owners and mitigation strategies. This is reviewed by the *Operating Committee* before being reviewed and approved by the Board
- the lines of business and internal service units 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 responsibilities for major group operations report quarterly with their opinion on the effectiveness of the operation of internal controls in their area of responsibility
- the group's internal auditors carry out continuing 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 the lines of business and internal service units operations
- the *Audit & Risk Committee*, on behalf of the Board, considers the effectiveness of the operation of internal control procedures in the group 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 the 2011 financial year.

Joint ventures and associates, which BT does not control, have not been dealt with as part of the group risk management process and are responsible for their own internal control assessment.

BT's accounting policies are set out on pages 91 to 99. The consistent application of those policies is subject to ongoing verification through management review and by 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 conducted jointly by our internal and external auditors which serves to confirm the operation of the 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 judgments – the Committee's activities are set out on pages 65 to 66.

The Board has approved the formal statement of matters which are reserved to it for consideration, approval or oversight. It has 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 *Operating Committee* 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.

US Sarbanes-Oxley Act of 2002

BT has securities registered with the US Securities and Exchange Commission (SEC). As a result, we must comply with those provisions of the Sarbanes-Oxley Act applicable to foreign issuers. We comply with the legal and regulatory requirements introduced pursuant to this legislation, in so far as they are applicable.

The *Audit & Risk Committee* includes members Phil Hodgkinson and Nick Rose who, in the opinion of the Board, are 'audit committee financial experts' and who are 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, Government, financial management, treasury 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 adopted for the purposes of the Sarbanes-Oxley Act is posted on the company's website at www.bt.com/ethics. The code applies to the Chief Executive, Group Finance Director and senior finance managers.

Disclosure controls and procedures

The Chief Executive and Group Finance Director, after evaluating the effectiveness of BT's disclosure controls and procedures as of the end of the period covered by this Annual Report & Form 20-F, have concluded that, as of such date, BT's disclosure controls and procedures were effective to ensure that material information relating to BT was made known to them by others within the group.

The Chief Executive and Group Finance Director concluded that BT's disclosure controls and procedures are also effective to ensure that the information required to be disclosed by the company in reports that it files under the Exchange Act is recorded, processed, summarised and reported within the time periods specified in the rules and forms of the SEC.

The Chief Executive and Group Finance Director have also provided the certifications required by the Sarbanes-Oxley Act.

Internal control over financial reporting

BT's management is responsible for establishing and maintaining adequate internal control over financial reporting for the group including the consolidation process. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with IFRS. Management conducted an assessment of the effectiveness of internal control over financial reporting based on the framework for internal control evaluation contained in the Turnbull Guidance.

Based on this assessment, management has concluded that as at 31 March 2011, BT's internal control over financial reporting was effective.

There were no changes in BT's internal control over financial reporting that occurred during 2011 that have materially affected, or are reasonably likely to have materially affected, the group's internal control over financial reporting. Any significant deficiency, as defined by the US Public Company Accounting Oversight Board (PCAOB), in internal control over financial reporting, is reported to the *Audit & Risk Committee*. PricewaterhouseCoopers LLP, which has audited the consolidated financial statements for 2011, has also audited the effectiveness of the group's internal control over financial reporting under Auditing Standard No.5 of the PCAOB. Their report is on page 90.

SHAREHOLDERS AND ANNUAL GENERAL MEETING

Relations with shareholders

Senior executives, led by the Chief Executive and the Group Finance Director and including, as appropriate, the other executive directors, hold meetings with BT's institutional shareholders and prospective shareholders to discuss BT's strategy, financial performance and prospects. The Chairman also meets with major shareholders, at their request, during the year. This may also include meetings to discuss remuneration policies and governance issues. All non-executive directors have an invitation to attend investor meetings if they wish and during the year the Senior Independent Director has held meetings with major institutional shareholders and representative bodies about governance and remuneration policy. Contact with institutional shareholders (and with financial analysts, brokers and the media) is controlled by written guidelines to ensure the protection of inside information that has not already been made generally available to the market. The directors are provided with reports and other written briefings on shareholders' and analysts' views and are regularly informed by the Company Secretary about the holdings of the principal shareholders. The Company Secretary also surveys private shareholders about the quality of our shareholder communications. In 2010 we randomly selected 9,000 private shareholders to give them an opportunity to provide feedback and help us improve our engagement with them. In line with our cost transformation objectives we are encouraging our private shareholders to receive electronic shareholder communications.

Established procedures ensure the timely release of inside information and the publication of financial results and regulatory financial statements. All external announcements are also reviewed for accuracy and compliance requirements by a committee of senior executives, the Disclosure Committee, which is chaired by the Company Secretary.

Substantial shareholdings

At 6 May 2011 BT had received notifications, under the Disclosure and Transparency Rules issued by the Financial Services Authority, in respect of the following holdings of shares representing percentage holdings of BT's total voting rights as shown:

	Shares	% of total voting rights
Invesco Limited	845,250,432	10.88
BlackRock Inc.	398,607,977	5.14

AGM resolutions

Shareholders will be asked to vote on the annual report at the AGM. Shareholders will also again be asked to vote separately on the **Report on directors' remuneration**.

It is part of our policy to involve shareholders fully in the affairs of the company and to give them the opportunity at the AGM to ask questions about BT's activities and prospects. We also give shareholders the opportunity to vote on every substantially

different issue by proposing a separate resolution for each issue. The proxy votes for and against each resolution, as well as votes withheld, will be counted before the AGM and the results will be made available at the meeting. As at the 2010 AGM, votes on all matters at the 2011 AGM, except procedural issues, will be taken on a poll. Every vote cast, whether in person or by proxy at the meeting will be counted. The outcome of voting on the resolutions will be posted on our website as soon as possible after the meeting. It is our policy for all directors to attend the AGM if at all possible. Whilst, 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 relevant questions. All the directors attended the 2010 AGM.

The resolutions to be proposed at the 2011 AGM at Old Billingsgate, London on 13 July, together with explanatory notes, appear in the separate *Summary financial statement & notice of meeting 2011* which is sent to all shareholders who have requested a copy. Copies of this annual report are sent only to shareholders who have requested or request a copy. All shareholders are notified of the publication of these documents which are sent 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, these documents are being sent to shareholders more than 20 working days before the AGM.

Resolutions to re-appoint PricewaterhouseCoopers LLP as BT's auditors and to authorise the directors to agree their remuneration will also be proposed at the AGM.

The presentation made by the Chairman and the Chief Executive will be broadcast live on the internet at www.bt.com/btagm2011 and will be available after the AGM.

Authority to purchase shares

The authority given at last year's AGM of the company held on 22 July 2010 for BT to purchase in the market 775m of its shares, representing 10% of the issued share capital, expires on 13 July 2011. Shareholders will be asked to give a similar authority at the AGM.

During 2011, 9.7m treasury shares were transferred to meet BT's obligations under our employee share plans. At 6 May 2011 a total of 389m shares were retained as treasury shares. All the shares were purchased in an on-market programme of buying back BT shares, started in November 2003. The programme was suspended with effect from 31 July 2008.

By order of the Board

Andrew Parker
Company Secretary

11 May 2011