

Nominating & Governance Committee

Chairman's report



“We have focused on succession, Board membership, and our governance structures for BT and Openreach. I believe the decisions we have made this year will have a meaningful impact in setting BT and Openreach up for long term future success.”

Who we are

I chair the *Nominating & Governance Committee* at the request of the Board. Our role is to ensure our Board and committee members have the right balance of skills, experience, independence and knowledge to effectively discharge their duties and responsibilities. We also oversee BT's governance framework.

Our members and their meeting attendance are set out below. The company secretary attends our meetings, as does the chief executive where appropriate.

Committee members

Member	Meetings	
	Eligible to attend	Attended
Sir Michael Rake (chairman)	5	5
Tony Ball	5	5
Iain Conn	5	5
Isabel Hudson	5	5
Nick Rose	5	5

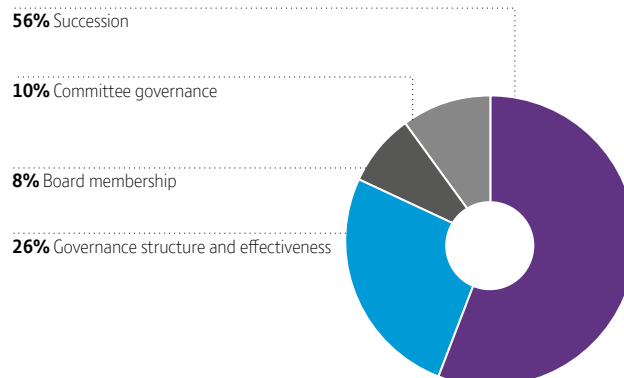
What we've done

We met five times this year. We spent a considerable amount of time discussing and agreeing the appointment of my successor. This process was led by Nick Rose as our senior independent director, who chaired the meetings when the appointment of my successor was discussed.

In accordance with our proposals to Ofcom on the DCR, we discussed the independent appointments to the Openreach board, and approved the appointment of Mike McTighe as the first chairman of Openreach from January 2017. Mike is an experienced telecoms executive and brings a wealth of industry and regulatory knowledge to this role.

This chart shows how we allocated our time.

Allocation of time



Succession

Our senior independent director, Nick Rose, led the process to find and appoint my successor. We engaged with external search consultants MWM Consulting to identify potential candidates. BT instructs MWM Consulting from time to time for search assignments, but they otherwise have no connection to the company. The committee discussed the process used to compile the candidate list, and agreed that MWM Consulting's methodology and rationale were appropriate and that there was sufficient diversity in the proposed field of candidates.

Nick Rose, Gavin Patterson and other Board members then met with potential candidates. MWM Consulting also commissioned an independent report from Montrose Associates, to provide a thorough profile on each candidate.

Following this comprehensive process the committee was able to make a clear recommendation with which the Board agreed. As a result, I'm delighted to welcome Jan du Plessis as a non-executive director of the Board from 1 June 2017, before he becomes chairman on my retirement on 1 November 2017. Jan has led a number of high profile organisations, having been chairman of British American Tobacco, SABMiller and Rio Tinto. I wish Jan every success as he joins BT at this important time.

Board membership

We keep the composition of our Board under close review. In order to best serve all of our customers, we believe the composition of our Board should support diversity in its widest sense. As part of our gender diversity policy we aim to have at least 25% female representation on the Board. We currently have 27% female representation, with 3 female members out of 11. Gender diversity on our Board continues to be in line with the Davies Report target and we make sure that our external search consultants consider diversity as part of the candidate shortlisting process as we work towards Lord Davies's new target of 33% female Board representation by 2020. Read more about BT's approach to diversity on page 29.

Our Board members each contribute individual knowledge, skills and experience, which we regularly review using a skills matrix. This covers the skills needed for running a listed company; knowledge and understanding of different customer sectors; industry specific knowledge; stakeholder engagement; and regional experience in different parts of the world. This year, we asked Board members to re-evaluate their own skills, and considered the skills we may wish to prioritise when evaluating potential new candidates.

We believe our Board currently has an appropriate composition and mix of skills and we continue to keep under review the retirement dates of our non-executive directors.

This year, we recommended that Nick Rose's appointment as senior independent director be extended for a further three-year term starting from 1 January 2017, and that Jasmine Whitbread's appointment as a non-executive director should also be extended for a further three-year term starting on 19 January 2017. Nick did not participate in any discussions regarding his reappointment. The UK Corporate Governance Code states that any term beyond six years should be subject to a particularly rigorous review, therefore this recommendation followed a thorough appraisal of Nick's and Jasmine's performance. We concluded that both make a valuable and broad ranging contribution to the Board and the various committees of which they're members, as well as to the business as a whole.

We also reviewed Nick and Jasmine's roles outside BT, and as a result we're confident that these don't prevent either Nick or Jasmine from effectively discharging their Board responsibilities and making a full contribution in their roles. We were able to assure ourselves that Nick and Jasmine continue to be independent in character and judgement, and that there are no conflicts of interest that could affect their decision making.

All non-executive appointments can be terminated on three months' notice and are subject to automatic termination in the event of a director not being elected or re-elected by shareholders at the AGM.

Governance structure and effectiveness

We keep our governance structure and the membership of our Board committees under continuous review:

- In light of the new Investigatory Powers Act passed in November 2016, we recommended that the Board approve the creation of an *Investigatory Powers Governance Committee* with immediate effect. This will help us to develop and refine our governance of investigatory powers requests so that we meet our new legal obligations and our human rights commitments.
- After reviewing the terms of reference of this committee we recommended a change to allow any independent non-executive director to attend its meetings, unless the topic being discussed relates to their appointment. The Board approved this change in October 2016.
- We also reviewed the terms of reference of our Regional Governance Committees (RGCs) which monitor governance and compliance in their respective regions. We approved a number of changes to help improve the effectiveness of the RGCs.

Committee evaluation 2016/17

As part of our internal Board review in June 2016, we evaluated the committee's effectiveness. Committee members, the chief executive and the group general counsel & company secretary completed an online questionnaire based on the committee's terms of reference.

We noted the results of the questionnaire in October 2016, and in March 2017 we reviewed our progress in addressing the various challenges and priorities it highlighted.

The following table summarises our progress against the key areas of focus:

KEY AREAS OF FOCUS	ACTIONS
Succession planning	
Chairman succession	This has been a key focus of the committee this year; Nick Rose, our senior independent director has led the succession planning process.
The impact of Ofcom's DCR on Openreach and Group governance	
Openreach board	In line with our proposals to Ofcom on the DCR, the committee received updates on the Openreach board appointment process. Mike McTighe's appointment as chairman was approved by the committee and announced on 29 November 2016. The appointment of the remaining three independent non-executives was completed in January.
Integrating BT's and EE's governance cultures post EE acquisition	
Integration Committee	The <i>Integration Committee</i> oversees the integration of EE and BT, and has met four times this year.
Governance arrangements for a non-independent non-executive director	
Conflicted Matters Committee	The <i>Conflicted Matters Committee</i> reviews all Board papers and agenda items to make sure we don't share any conflicted matters with the non-independent, non-executive director. The committee reviewed the role of the <i>Conflicted Matters Committee</i> at its meeting in March.
Governance requirements for data privacy and data protection	
Investigatory Powers Governance Committee	In December 2016, the committee recommended, and the Board subsequently approved, the formation of the <i>Investigatory Powers Governance Committee</i> . Its role is to make sure we balance our legal obligations under the new investigatory powers legislation, and our human rights commitments, particularly the right to privacy.

Board evaluation 2017/18

In line with the UK Corporate Governance Code, we have commissioned an external evaluation of our Board effectiveness for 2017/18. We agreed that the company secretary would conduct the tender exercise and recommend an external facilitator to the chairman. Following the tender exercise, we chose 'Independent Board Evaluation' to conduct the evaluation, which comprised an interview with each Board member, and observations of the Board and certain committees. The review focused on Board accountability and composition, the Board's role in setting strategy, risk management, succession planning, and the effectiveness of the Board committees. The evaluation took place in March and April 2017. The Board will receive a full report in June 2017, and will discuss the results at a future Board meeting.

The chairman will also conduct one-to-one interviews with directors on their individual performance and the senior independent director, Nick Rose, will conduct the annual evaluation of the chairman.

Sir Michael Rake
Chairman of the Nominating & Governance Committee
 11 May 2017