



Shareholder Exclusive

May 2018

**Our AGM will be
in Edinburgh on
11 July 2018**

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your Chairman

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A message from your Chairman



Our 2018 Notice of meeting and Annual Report & Form 20-F are now available online at [bt.com/annualreport](https://www.bt.com/annualreport)

We enclose your AGM admission card/proxy card. If you're unable to come to the AGM, please use the card to send us your voting instructions.

Strong first impressions

I am honoured to be chairman of your company, BT. My first impressions of BT are that we have great strength in our assets, people and capabilities, and this positions us well to deal with the challenges and opportunities ahead. It is important that we maintain our market leadership and play our part in supporting the UK as a world-class digital economy. As chairman, I intend to support our people, engage with our stakeholders collaboratively, and build an even stronger reputation for our company.

I would like to take this opportunity to thank my predecessor, Sir Mike Rake, for his ten years of outstanding service to BT. I also want to thank the many people at BT who have made me feel so welcome. Karen Richardson and Tony Ball will step down from the Board at the conclusion of the AGM having served six and nine years respectively. I would like to thank Karen and Tony for their significant contribution during their time at BT.

BT is well positioned; we are leaders in fixed and mobile networks; in both our consumer and enterprise markets. We have four powerful brands and we are financially robust. We have great people with wide-ranging skill sets and a healthy culture.

That said this is a complex business; we operate in some tough markets and we have significant challenges ahead.

Initial priorities

It is important to me that we secure investment in integrated networks, the digital infrastructure of the future, and maintain a relentless focus on improving the experience of our customers.

To achieve this we need to continue to invest in new technologies and opportunities; in fibre-to-the-premises (FTTP), 5G, cybersecurity and the Internet of Things. It is also vital to continue to invest in our people to make sure we have the right skills to take our company forward. And I want to make sure we give our customers exemplary service. We have made significant improvements in customer experience across the group, but we are still not where we need to be. It is about giving our customers the best possible experience so that they become advocates for our company.

I also believe an important part of my role will be to enhance the reputation of BT. In particular, it is critical that we build and maintain constructive and trusted relationships with government and the regulator.

Key achievements

Your company took a number of significant steps in 2017/18. We:

- announced a large-scale FTTP deployment, and achieved 90% geographic coverage with 4G
- obtained a good allocation of 3.4GHz spectrum as part of our overall planning for 5G
- launched ultrafast broadband products with minimum speed guarantees
- secured another three years of Premier League football at lower cost
- entered into a supply arrangement with Sky that ensures our TV customers will enjoy the best possible content
- have increasing clarity on key aspects of regulation, with the completion of the wholesale local access market review, the decision by the regulator not to mandate a dark fibre product for the time being, and the implementation of a new governance structure for Openreach
- closed the defined benefit pension scheme to further accrual, whilst increasing the company's contribution rates to our main defined contribution pension scheme. This followed a detailed consultation process and is with the agreement of our pension scheme members and their unions. In May we also reached agreement with the pension trustee on the 2017 triennial valuation and recovery plan, giving us certainty over the contributions we need to make to support the fund for the next three years
- used technology to support communities and society.

Transformation ahead and dividend

We have a comprehensive transformation programme in place to improve our operational and financial performance in what remains a competitive market environment, and we are increasing our investment to drive convergence and sustain our network leadership. We are confident in our strategy and the benefits we expect from the decisive actions we are taking to strengthen our competitive position.

Given the current market and regulatory headwinds and our investment plans, the Board has decided to hold the dividend per share unchanged at 15.4 pence for this year. The Board also expects to hold the dividend unchanged in respect of the next two financial years, given our outlook for earnings and cash flow over this period.

Looking to the future

I am delighted to be working with Gavin, and I know I have the support of a first-class Board. I am also confident we have the right leadership team in place to take our business forward and meet the challenges we have in the years ahead.

The Board has full confidence in the transformation programme that we have put in place. We believe that successful execution of our evolved strategy will serve the long-term interests of all our stakeholders and will ensure that we play our part in keeping the UK a leading digital economy.

Above all, we are confident that it will allow us to build trust and confidence and drive sustainable growth in value for our shareholders.



Jan du Plessis
Chairman
9 May 2018

A message from your Chief Executive



In a challenging year we have delivered on our strategy, made important investments for the future, competed effectively in the marketplace, and made great improvements to the experience we deliver to our customers. Our operational and financial results were overall broadly in line with expectations. We will accelerate our transformation with a three-year plan, and I remain tremendously optimistic about the future of our company and its stakeholders.

Robust business performance in a tough environment

The market environment has got tougher in the last year. Volumes have slowed in our consumer businesses, as the markets for broadband, pay-TV and mobile subscribers reach maturity. Our customers responded well to our 'more for more' strategy which focuses on value versus volume as customers upgrade to fibre and 4G.

In our enterprise operations, customers are seeking shorter, more flexible contracts and more digital solutions. Openreach has come under pressure from regulation. Competition – from new entrants as well as established players – remains intense wherever we operate.

Against this, we recorded financial results overall broadly in line with expectations. BT is extremely well positioned in all of its markets; we have met the challenges and taken opportunities in a disciplined way.

Delivering our strategy in 2017/18

Here's how we delivered against the three pillars of our strategy.

Deliver great customer experience

In 2017/18 we drove the best improvements in our customer metrics for many years. At the group level:

- Net Promoter Score was up by 8.3% points
- Right First Time was up by 4.3%
- Network faults were reduced by 3.7%
- Installation times for key products like Ethernet were cut by a third
- We installed a record 2.1 million fibre broadband net connections.

While we are proud of these achievements, we know there is much more still to do.

Invest for growth

We made significant investments across the business in 2017/18.

- In Openreach we've started the rollout of ultrafast broadband delivering speeds of over 100Mbps with the announcement of the accelerated deployment of FTTP to three million homes by 2020, accompanied by a rapid rollout of Gfast
- In Consumer we've invested to improve customer experience, and also to secure the best possible content for our BT Sport and TV customers
- Our continued investments in EE have positioned us as the pre-eminent UK mobile operator, including in network coverage, store formats, and online
- In our enterprise businesses, we've continued to invest to reposition our product set based on digital solutions, and unified communications leveraging our mobile capabilities
- And our investment in many of our ventures is leading to impressive growth.

Looking ahead, we will need to continue to invest to secure growth in the medium term. This will include investment in our integrated fixed and mobile networks, fibre, 4G and eventually 5G, and investment to make our network, operations and product set increasingly digital and converged.

Transform our costs

We have delivered on our existing cost-saving initiatives. Our restructuring programme has removed over 2,800 roles and delivered £180m of savings during the year. And we made good progress with our pension fund.

Accelerating our strategic transformation

Our performance in 2017/18 has created a platform and position of strength from which to begin the next phase of our strategic transformation. We need to accelerate the process in order to meet the challenges ahead.

We have updated our strategy and will implement a new three-year plan, which we will deliver through three strategic priorities:

- delivering differentiated customer experiences
- investing in integrated network leadership
- transforming our operating model.

We are creating a more lean, agile and flexible organisation with a simpler operating model. We also need to make sure we have the right blend of skills for the challenges and opportunities ahead. We recently announced the creation of 6,000 new roles in frontline engineering, customer service and cybersecurity. More difficult has been the decision to remove 13,000 roles; largely from middle management and back office functions. We're also rationalising the number of our sites – including plans to exit BT Centre in London.

My thanks, and an exciting future

I believe BT is a strong business that is well placed to continue to lead the UK communications market, in converged connectivity and services. The plans we are implementing will ensure our company is more efficient, incrementally productive, equipped with the right skill sets, and better able to meet the challenges and capitalise on the opportunities that lie ahead. Ultimately, we will be able to offer our customers the products and services they deserve.

And, following a number of additions to my Executive Committee in the year, I am confident I have a strong leadership team ready to deliver on our transformation programme.

I would like to thank everyone at BT for everything they have delivered over the last year and for their support as we implement the next phase of BT's transformation.



Gavin Patterson
Chief Executive
9 May 2018

Become an e-shareholder and you could win one of our great prizes

As an e-shareholder, we'll communicate with you electronically and your dividends will be paid directly into your bank or building society account.

It's quicker and easier all round.

Step 1

Register your e-shareholder account

Go to bt.com/signup

All you need is your Shareholder Reference (from your dividend confirmation) and your email address.

Choose e-communications

In 'Your preferences' elect to receive shareholder communications by 'email' rather than 'post'.

Step 2

Choose direct dividend payment

Once you've received your activation code in the post, add your bank account details.

Don't delay – sign up today – the prize draws close on 31 July 2018.

Amazon Echo

Amazon Echo is a hands-free speaker you control with your voice. Echo connects to the Alexa Voice Service to play music, ask questions, make calls, send and receive messages, provide information, news, sports scores, weather and more. All you have to do is ask!

Register as an e-shareholder and you'll automatically be entered into the prize draw*.



BT Tower trip

At nearly 600ft tall, the BT Tower gives you spectacular panoramic views of the city of London. You can visit as our VIP guest and see the sights for yourself.

Simply register as an e-shareholder by 31 July 2018 and we'll enter you into the prize draw to win two tickets for a memorable visit to the BT Tower*.

* To enter, register as an e-shareholder. All prize draws' terms and conditions including how to opt out of the prize draws can be found at bt.com/signup

All prize draws close on 31 July 2018.



Your dividends

Withdrawal of cheque dividend payments **From September 2018, cheque dividend payment for shares in Easyshare¹ is being withdrawn**

Important: if you don't provide bank details by 31 July 2018, your cash dividends will be reinvested in the BT Dividend Investment Plan ('the plan'²) to purchase additional shares in BT. If you subsequently revoke this election and don't provide up-to-date bank details, your shares will be transferred out of Easyshare, and a share certificate issued to you.

You can contact the Shareholder Helpline if you have any queries. Details overleaf.

Annual dividend confirmation

In 2015/16, we introduced annual dividend confirmations giving you all your BT dividend information from the previous tax year in one statement.

By choosing to receive your dividends direct to your bank or building society account, you'll automatically receive an annual dividend confirmation.

You should keep your dividend confirmation as you may need it for tax purposes. You may be charged for a duplicate.

Dividend payments

In April 2016 the dividend tax credit was replaced by a tax-free dividend allowance. The dividend allowance doesn't reduce your total income for tax purposes, but it means that you don't have to pay tax on the first £2,000 of your dividend income, no matter what non-dividend income you have. The allowance is available for anyone who has dividend income.

The allowance reduced to £2,000 (from £5,000) in April 2018.

What does this mean for you as a shareholder?

Tax on any dividends you receive over £2,000 will be charged at:

- 7.5% for basic rate taxpayers;
- 32.5% for higher rate taxpayers; and
- 38.1% for additional rate taxpayers.

Dividends within your allowance will still count towards your basic or higher rate bands and may therefore affect the rate of tax that you pay on dividends you receive in excess of the £2,000 income.

Dividends received on shares held in an Individual Savings Account (ISA) continue to be tax-free.

Make sure your contact details
are correct at shareview.co.uk

¹ Easyshare is BT's corporate sponsored nominee

² Further information on the plan including terms and conditions, applicable fees and how to apply are available at shareview.co.uk/info/drip

Be ScamSmart

Investment scams are designed to look like genuine investments

Spot the warning signs

Have you been:

- contacted out of the blue
- promised tempting returns and told the investment is safe
- called repeatedly, or
- told the offer is only available for a limited time?

If so, you might have been contacted by fraudsters.

Avoid Investment fraud

1. Reject cold calls

If you've received unsolicited contact about an investment opportunity, chances are it's a high risk investment or a scam. You should treat the call with extreme caution. The safest thing to do is to hang up.

2. Check the FCA Warning List

The FCA Warning List is a list of firms and individuals we know are operating without our authorisation.

3. Get impartial advice

Think about getting impartial financial advice before you hand over any money. Seek advice from someone unconnected to the firm that has approached you.

Report a Scam

If you suspect that you have been approached by fraudsters please tell the FCA using the reporting form at www.fca.org.uk/consumers/report-scam-unauthorised-firm You can also call the FCA Consumer Helpline on **0800 111 6768**.

If you have lost money to investment fraud, you should report it to Action Fraud on 0300 123 2040 or online at www.actionfraud.police.uk

Find out more at www.fca.org.uk/scamsmart

Remember: if it sounds too good to be true, it probably is!



Take simple precautions to protect personal and financial information. For tips on how to protect yourself and find out the latest information go to bt.com/scams

Marketing

Unless you tell us not to, we will tell you about BT products and services we think you might be interested in. We might do this through the post, emails or online.

We won't include this detail if you tell us not to but we will still need to send you shareholder-related messages. You can opt out of getting marketing messages anytime by simply writing to our registrars Equiniti at the address below.

Data protection

We've updated our privacy notice to reflect the changes in data protection laws. You can find our new privacy notice at

btplc.com/Sharesandperformance/Shareholders/Privacypolicy/index.htm

Contact information



Shareholder helpline

For general enquiries call:

Freefone

0808 100 4141
(+44 121 415 7178*)

Textphone

0800 169 6907
(+44 121 415 7028*)

*Calls from outside the UK

Data protection

On 25 May 2018 the law is changing to give you improved clarity and rights over your personal data. Equiniti are updating their Privacy Notices (effective from 25 May 2018) to make it easier for you to understand how they use and

protect your information.

To read the latest version of Equiniti's Privacy Notices and to understand more about how they safeguard your data, please visit privacy.equiniti.com



You can find information on how to manage your shareholdings at help.shareview.co.uk

If your question is not answered by the information provided, you can send your enquiry via secure mail from these pages.



Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, United Kingdom (please include a daytime telephone number).

BT Group plc

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