May 2017

Shareholder Exclusive

We use the power of communications to make a better world

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Our AGM will be in London on 12 July 2017
A message from your Chairman

As I write my tenth and final chairman’s letter, I look back at the progress BT has made over the past decade. It has been a privilege to oversee a period in which BT took the decision in 2008, at a time of great macroeconomic uncertainty, to begin a rollout that has now passed over 26.5 million premises with fibre broadband. Other highlights include launching BT Sport in 2013 and acquiring EE in 2016. Over the past decade, we have also returned over £1 per share to shareholders in the form of dividends. I am pleased to say that BT is an immensely stronger company than it was ten years ago.

However, 2017 has presented its challenges. While we have made significant progress in many areas, concluding the Ofcom Openreach review and successfully integrating EE into the BT Group, we have also had to address some significant issues. In particular the fraud in our Italian business, trading in the UK public sector and international corporates, and the fine that we received from Ofcom for historical process failures in Openreach are very disappointing. The Board takes them very seriously and has extensively investigated the causes to ensure that they cannot happen again.

As we look ahead to the UK’s exit from the European Union, it is more important than ever that we have strong British companies investing in our country’s future. We invested around £2bn in the UK’s fixed and mobile communications networks this year and have bold ambitions to reach 12 million premises with ultrafast broadband by the end of 2020.

We also take seriously our responsibility to invest in the UK’s workforce. We hired 900 apprentices this year, with plans to increase this to over 2,000 next year.

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. Your votes are important to us. If you’re coming to the AGM, please bring the card with you to help with identification and keep it until the end of the meeting to vote.

Our goal remains to deliver sustainable, profitable revenue growth. Together with our cost transformation activities, this will support long-term cash growth and therefore create value for our shareholders. As I leave BT I would like to thank my colleagues on the Board, Gavin Patterson, our CEO, and the management team whose support I have valued highly over the years.

In my first chairman’s message ten years ago, I closed by saying there was every reason for optimism. Looking forward, I have great confidence that remains the case today.

Sir Michael Rake
Chairman
11 May 2017
A message from your Chief Executive

Whilst we’ve continued to bring new services to our customers, invested in our digital infrastructure and made significant improvements to the customer experience, I’d be the first to say that 2016/17 has been a challenging year, and one that has been humbling for us all at BT.

The behaviours and practices we found in our Italian business, as well as Ofcom’s findings around Openreach’s use of the Deemed Consent process a number of years ago, have no place in BT. We take these extremely seriously and have reviewed all aspects of our governance, putting in place new measures and controls to prevent them from happening again. In addition, we’ve also faced difficult market conditions in both the UK public sector and international corporate markets.

Despite these challenges though, I believe we’ve made good progress in many areas across the business.

After a two-year negotiation, we reached a comprehensive and enduring agreement with Ofcom on the long-term governance of Openreach. This brings to a close a period of uncertainty; protects the interests of millions of UK households, businesses and service providers who rely on our infrastructure, and it’s good news for pensioners and colleagues too.

We’ve continued to invest in the UK’s digital future. We’ve now passed over 26.5 million premises with our superfast fibre broadband network. Our ultrafast deployment, which provides speeds of 100Mbps and above, is also making great progress, with 500,000 homes and businesses now passed – using a mix of fibre-to-the-premises and G.fast technologies.

We’ve secured exclusive rights to the UEFA Champions League and UEFA Europa League until the end of the 2020/21 season, covering double-header nights during the group stages and free-to-air broadcast. These rights are in addition to FA Cup and Premier League football, live rugby, cricket, UFC and now boxing.

And we’ve built a unique security platform that integrates best-in-class technology from our partners, with our own award-winning innovation – to protect our multinational customers and the UK’s critical national infrastructure.

Customer experience remains our top priority. We’ve listened to criticism and have a well-developed improvement plan in place. Our efforts are starting to bear fruit and customers are benefiting – with significantly more calls answered onshore, shorter call waiting times, faster repair times, fewer missed appointments, and our best Right First Time performance this decade. All of this is showing in our Group Customer Perception Score, the way we measure customer experience, which has improved for the last ten consecutive months. While we’re making progress, we know our service must continue to get better and our focus will remain on delivering further improvements in the coming year.

We remain committed to our strategy of broadening and deepening customer relationships and to using the power of communications to make a better world.

This year has presented us with challenges and we’ve learnt from them. I know we have the ability to emerge stronger and better, whatever challenge we face. We take our role as the leading investor in the UK’s digital infrastructure very seriously. I’m determined to make sure that we remain at the heart of what’s to come and that we continue to add value for our customers and employees and for shareholders and society as a whole.

We’re excited about the opportunities we’ll create to use our unique set of assets and capabilities; the innovative new products and services we’ll bring to customers and the new skills and career possibilities we’ll provide for our people.

Gavin Patterson
Chief Executive
11 May 2017
Shareholder prize draw and offers

**BT Shop**

Save up to £30 on the BT8600 Advanced Call Blocker range that comes with our unique Virtual Assistant, which means you’ll never have to speak to another cold caller again!

To find out what else is available, call 0800 917 0514 or visit www.bt.com/shop/shareholder

Demand is usually very high, so we’re only able to make these offers available for a limited period.
Win a FitBit Charge 2
We’re offering one lucky shareholder the chance to win a FitBit Charge 2*. Make every beat count with a fitness wristband built with PurePulse® heart rate, multi-sport modes, guided breathing sessions & interchangeable bands. The FitBit Charge 2 is the perfect accessory to monitor and improve your health and fitness.

To enter and/or request prize draw terms and conditions, call 0800 138 5110 or go to www.bt.com/shop

* The prize draw closes on 31 July 2017.

Warner Leisure Hotels
Make the most of every summer-filled moment and double your discount. You can get £20** off our best offers, but hurry, offer ends 26 June!

At Warner we’re confident you’ll find something you’ll like! Take our 13 hotels and villages, set amidst the most picturesque parts of the country, some with stunning countryside backdrops and others just perfect for those who like a break by the sea.

To book call 0333 202 0304 or visit warnerhotels.co.uk/BT and quote BTDOUBLE

** Book by 26 June 2017. Terms and conditions apply. Go to www.bt.com/shareholderoffers
Get away from it all
WIN a three-night weekend break with Warner Leisure Hotels at any one of their stylish hotels in 2017. Stay in a standard room and enjoy a range of daytime activities including full use of the leisure and sports facilities. Delicious breakfasts and evening meals are also included. Be the first to experience all that’s new for 2017. All prize winners must be over 21 years of age. By choosing to receive your dividends direct, you’ll automatically be entered into the prize draw*.

BT Whole Home Wi-Fi
Get superfast, super-reliable wi-fi for every room with Whole Home Wi-Fi. It talks to all your gadgets to make sure they’re always automatically connected to the fastest and strongest signal. This is wi-fi at its finest.

Choose to receive your dividends direct and you’ll automatically be entered into the prize draw*.

Receive your dividends direct and have the chance to win one of our great prizes

Why not receive your dividends direct to your bank or building society account and we’ll automatically enter you into our prize draws where you could win one of our great prizes*.

Why choose direct dividend payment?
– It’s more secure
– No trips to the bank
– Annual dividend confirmation in May for all dividends in the previous tax year
– No fees for lost cheques

All you need to do is call 0808 100 4141 and provide your bank details – and it’s free.

Don’t delay – sign up today – the prize draws close on 31 July 2017.

* To enter, sign up to receive direct dividends. For all prize draw terms and conditions, go to www.bt.com/signup. All prize draws close on 31 July 2017.
Fraud warning

Fraudsters use persuasive, high pressure tactics to scam investors. They may offer to sell you shares that turn out to be fake or worthless, or to buy your shares at a high price if you pay an upfront fee.

Either way, the promised profits won’t materialise and you’ll probably lose your money. Here’s how to avoid investment scams...

**How to avoid share fraud**

1. **Hang up on cold calls**
   If you’ve been cold called with a high-risk offer to buy or sell shares, 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 hang up.

2. **Check the firm on the Financial Services Register at fca.org.uk/register**
   The Financial Services Register is a public record of all the firms and individuals in the financial services industry that are regulated by the Financial Conduct Authority (FCA).

3. **Get impartial advice**
   Think about getting impartial 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’ve been approached by fraudsters please tell the FCA using the share fraud reporting form at fca.org.uk/scams where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

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

Find out more at 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

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**Annual dividend confirmation**

In 2015/16, we introduced annual dividend confirmations giving you all your BT dividend information for 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.

**Changes to 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 £5,000 of your dividend income, no matter what non-dividend income you have. The allowance is available for anyone who has dividend income.

**What does this mean for you as a shareholder?**

Tax on any dividends you receive over £5,000 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 £5,000 allowance.

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

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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

✉️ BT Shop
0800 917 0514

You can find information on how to manage your shareholdings at https://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)