Summary Funding Statement

Results of triennial Actuarial Valuation of the Scheme as at 30 June 2014

The purpose of this statement is to provide you with a summary of the recent Actuarial Valuation of the Scheme as at 30 June 2014 which was agreed with BT on 29 January 2015. The Trustee is responsible for ensuring that the Scheme has sufficient assets (money) to pay its liabilities (benefits to members). At least every three years the Scheme Actuary completes an Actuarial Valuation, with an interim assessment in the years between valuations.

Results of the 30 June 2014 Actuarial Valuation

The valuation of the Scheme on a 'going concern' basis showed that on 30 June 2014, using the assumptions agreed by the Trustee and BT, the funding position was:

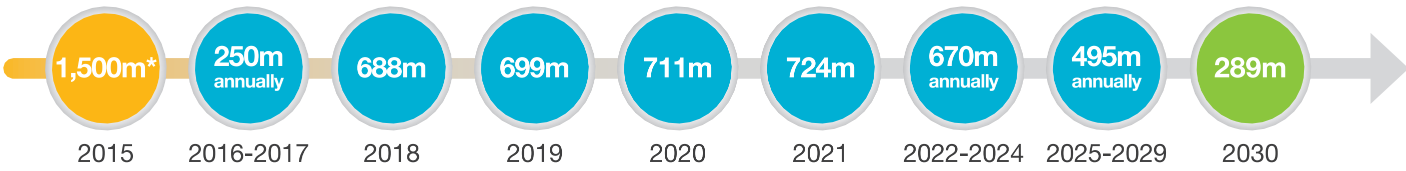
30 June 2014	£ million
Market value of assets	**£40,349**
Total value of accrued liabilities	**£47,393**
Funding shortfall (difference between the assets and the liabilities)	**£7,044**

This represents a funding level of 85%

BT and the Trustee have agreed that the funding shortfall should be eliminated by a series of lump sum payments from BT to the Scheme (known as a "recovery plan") over a 16 year timeframe. The length of the recovery plan reflects BT's long term and sustainable cashflow generation and ensures a balance between repairing the funding deficit and enabling BT to invest in the sustainable growth of the business.

The chart below illustrates the agreed recovery plan. BT will pay £1.5 billion by the end of April 2015 and a further £250 million in each of the years to March 2016 and March 2017. From 2018 to 2024 BT will make payments in line with the 2011 valuation agreement (being an average of £690 million per annum). After that BT will pay £495 million per annum through to 2029 with a final payment of £289 million in 2030.

Recovery plan contributions



* Payable by 30 April 2015

The Trustee and BT have also entered into new legally binding agreements on several other matters in order to improve the security of the Scheme for the benefit of members. All of the protections agreed as part of the 2011 valuation have been retained and in some instances enhanced. The first three provisions apply until finalisation of the next actuarial valuation, or 31 March 2019 if earlier.

1. BT has agreed that in the event that shareholder distributions exceed a threshold, then BT will make matching payments to the Scheme. The threshold allows for dividends per share to increase by 15% per annum and allows for share buybacks of £300m per annum on a cumulative basis. This protection enables the Scheme to benefit if BT further improves its distributions to shareholders, ensuring the Scheme shares in growth in profitability reflected in additional shareholder returns.

2. The parties have agreed that if BT generates net cash proceeds greater than £1bn from disposals, net of acquisitions, in any 12 month period and certain conditions apply, then BT will make additional contributions to the Scheme equal to one third of those net cash proceeds. This protection ensures that the Scheme benefits from any net cash generated by BT from disposals.

3. BT has also agreed to advise the Trustee should there be other material corporate events which may impact BT's covenant to the Scheme.

4. BT has again provided the Scheme with the protection of a 'negative pledge' which ensures that, within certain limits, future creditors will not be granted superior security relative to the Scheme. The negative pledge has been extended to cover BT plc, BT Group plc and their subsidiaries (including any new companies that may be acquired) and applies until the deficit reduces to below £2.0bn at any subsequent funding valuation.

The agreement with BT secures an updated funding plan for the Scheme supported by a range of enhanced protections. It ensures the Scheme's funding needs are met over a reasonable period whilst enabling BT to invest in the future of its business for the benefit of all its stakeholders.

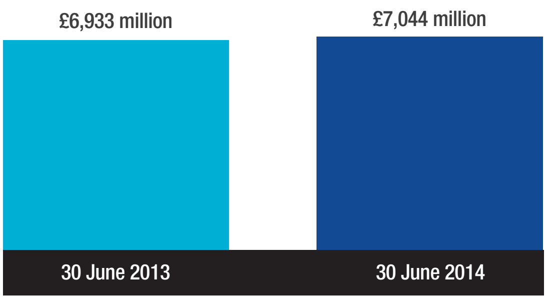
Why is the deficit higher than in 2011?

Between 30 June 2011 and 30 June 2014, the funding shortfall increased from £3,937 million to £7,044 million. Whilst substantial payments have been received from BT since June 2011 and we have seen growth in the assets from investment returns, the fall in interest rates between June 2011 and June 2014 has been significant. This has resulted in a higher value being placed on the liabilities of the Scheme, more than offsetting the improvements in the value of Scheme assets.

Changes since the 30 June 2013 interim assessment

The last Summary Funding Statement was issued during Spring 2014 and explained the funding position as at 30 June 2013, which was the date of the last interim assessment. Between 30 June 2013 and 30 June 2014, the funding shortfall slightly increased from £6,933 million to £7,044 million.

The slight increase in the deficit was largely due to the reduction in interest rates over the period, combined with the impact of changes in actuarial assumptions as agreed between the Trustee and BT. The increase in deficit was offset in part by the deficit funding contribution of £325 million paid by BT in March 2014.



The 2014 Actuarial Valuation has been undertaken in compliance with the Pensions Act 2004 and has had regard to the latest guidance issued by the Pensions Regulator. The existence of the Crown Guarantee has not been taken into account in reaching agreement on the valuation. The financial position of the Scheme and the level of BT's contributions will be reviewed at the next Actuarial Valuation, which is expected to be carried out at 30 June 2017. The valuation documentation has been submitted to the Pensions Regulator as required by legislation.

Other information

The Pensions Act 2004 states that we must share the following information with you.

The Scheme Actuary's estimate of solvency

The intention is for there to be enough money in the Scheme to pay pensions now and in the future, but this partly depends on BT carrying on in business. If BT goes out of business, it may pay the Scheme enough money to buy out, with an insurance company, all the benefits built up by members, or the Scheme could be continued as a closed fund (meaning that no further benefit entitlements would build up). The outcome on discontinuance would depend on the financial position of the Company, the capacity of the buy-out insurance market and the level of assets held in the Scheme.

The Scheme Actuary has assessed the position if BT became insolvent on a closed fund basis assuming that a low-risk, closely-matched investment strategy is adopted and including additional margins for risk. On this basis and assuming no further contribution from BT, it is estimated that at 30 June 2014 the assets of the Scheme would have met around 63% of the liabilities assessed on this basis.

However, in the unlikely event that BT became insolvent, there are a number of additional protections which should be available to members – both the Crown Guarantee (a guarantee from the Government granted when BT was privatised in 1984) and protection from the Pension Protection Fund (PPF).

- **Crown Guarantee:** You will find an article in the Trustee newsletter that provides an update on this Guarantee.
- **Pension Protection Fund (PPF):** The PPF was set up by the Government to protect individuals' pension benefits where a company becomes insolvent. If BT were to become insolvent, the PPF might be able to take over the Scheme and pay compensation to members. There are limits on the amounts paid by the PPF and for most members this would give lower benefits than those provided by the Scheme, particularly in terms of pension increases. Further information is available on the PPF website at **www.pensionprotectionfund.org.uk**, or by writing to: **Pension Protection Fund, Renaissance, 12 Dingwall Road, Croydon, Surrey CR0 2NA**.

Repayment to BT and modifications imposed by the Pensions Regulator

We are required to tell you if any payments have been made to BT from the Scheme since the last Summary Funding Statement was issued. We confirm that no such payment has been made to BT from the Scheme. We also confirm that the Pensions Regulator has not modified the Scheme, nor made any directions regarding the contributions BT is required to pay to the Scheme or the calculation of the Scheme's funding position.

BT Pension Scheme

Issued by:
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Please note:
The Scheme Rules govern your benefits under the Scheme, and in the event of conflict between this newsletter and the Rules, the Rules take priority.