

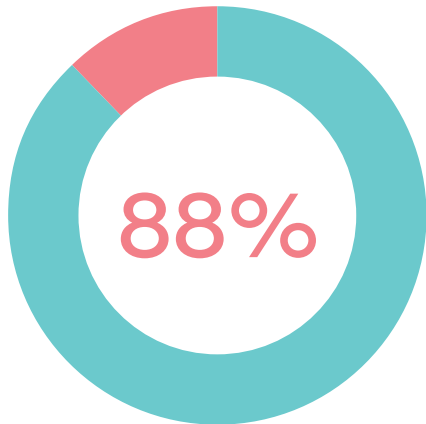
Summary Funding Statement

The Trustee is responsible for ensuring that the Scheme has sufficient funds to pay its liabilities (benefits to members). A full actuarial valuation must be carried out at least every three years as a detailed financial health check on the Scheme. Interim assessments also take place in the years between valuations. The purpose of this statement is to provide you with a summary of the recent actuarial valuation of the Scheme as at 30 June 2020, which was agreed with BT on 12 May 2021.

Results of the 30 June 2020 actuarial valuation

The actuarial valuation of the Scheme showed that on 30 June 2020, using the assumptions adopted for the valuation, the funding position was:

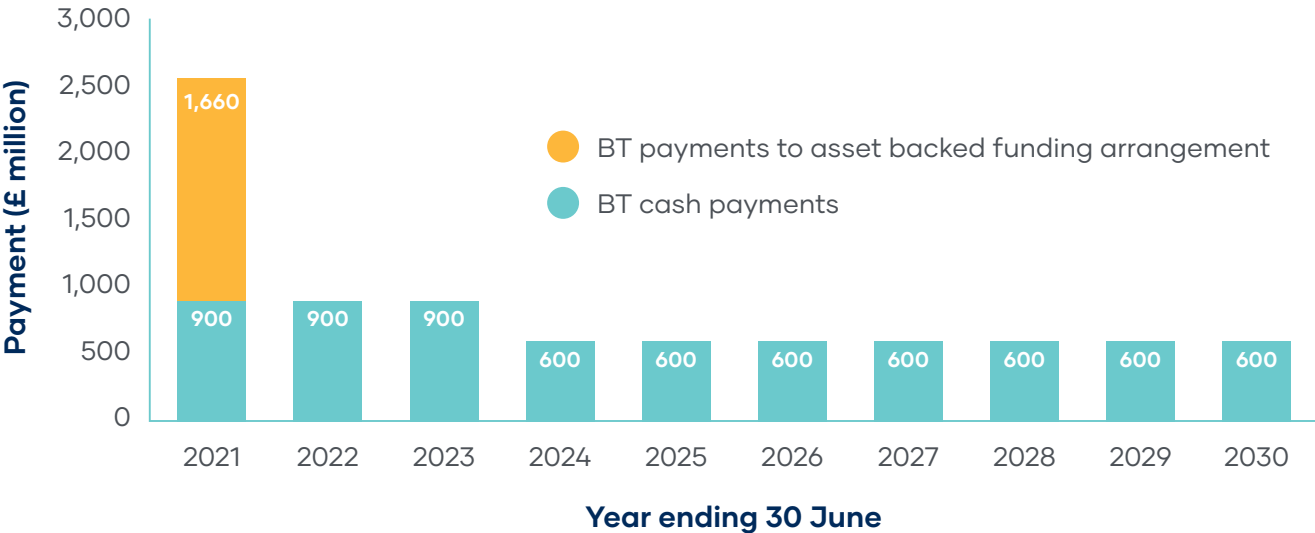
30 June 2020	£ million
Market value of assets	57,493
Total value of accrued liabilities (technical provisions)	65,471
Funding shortfall (difference between the assets and the liabilities)	7,978



This represented a funding level of 88%.

How is the funding shortfall being addressed?

The chart below illustrates the proposed payments by BT to meet the funding shortfall (known as 'the deficit').



The Trustee expects that the Scheme will reach full funding (i.e. the deficit is removed) by 30 June 2030. This is expected to be achieved as a result of the following:

- The BT payments shown on page 1 that are due before 30 June 2030.
- Use of the £1,660 million contribution from BT on 12 May 2021 to invest in an asset backed funding arrangement that will result in payments of £180 million a year to the Scheme. Although payments from this arrangement continue until 2034, the payments will end before that time if the Scheme deficit falls to zero, which is currently anticipated to be in 2030. This asset is secured on EE Limited shares.
- From 1 July 2023 to 30 June 2030, BT will pay £600 million a year either directly to the Scheme or to a new co-investment vehicle. If these payments are paid to this co-investment vehicle their value will be recorded as an asset in the Scheme accounts and, to the extent there is a funding deficit at 30 June 2034, the co-investment vehicle will pay funds to the Scheme. Any remaining funds in the co-investment vehicle would be returned to BT if they are not deemed to be needed by the Scheme when assessed by the Trustee over the period 2034 to 2036.
- A recovery plan was also agreed between the Trustee and BT as part the valuation, which is a formal requirement under the scheme funding regulations. This sets out the minimum amount BT is required to pay directly to the Scheme rather than the co-investment vehicle. As noted above, the Scheme is expected to achieve full funding by June 2030 based on the payments illustrated in the chart on page 1. If that is achieved, some of the contributions included in the formal recovery plan will not be needed. The recovery plan consists of contributions to the Scheme that are in line with those illustrated on page 1 for the years 2021–2023, with subsequent payments of £10 million a year each 31 March from 2024 to 2035 and a final payment of £4,696 million due by 31 December 2035. The formal recovery plan payments assume BT will pay £590 million a year to the co-investment vehicle from 2024 onwards rather than paying it directly into the Scheme.

In addition, the Trustee and BT have agreed that BT will pay up to a further £200 million a year to the Scheme if a future deficit is greater than expected by £1 billion or more. The need for these contributions will be assessed every year by the Scheme Actuary. This aspect of the agreement provides more certainty that the Scheme will achieve its path to full funding.

The Trustee and BT also agreed further protections that will apply until 2035, or until the deficit funding deficit is broadly removed. The protections include additional payments being made to the Scheme if BT pays dividends above an agreed level to its shareholders or in the event of material disposals, and requirements to consult the Trustee in certain circumstances.

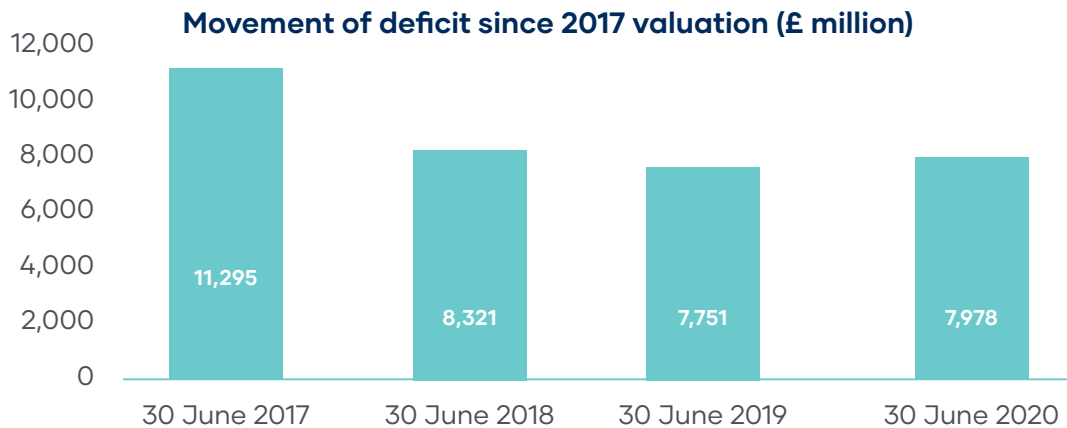
These new protections are in addition to the existing requirement that future creditors will not be granted superior security to the Scheme in excess of a threshold, to cover any member of the BT group. The threshold has been reduced from £1.5 billion to £0.5 billion.

Changes in the deficit since the 2017 valuation

Between June 2017 and June 2020, the funding shortfall reduced from £11,295 million to £7,978 million. This was mainly due to payments from BT (totalling £4.5 billion) in line with the recovery plan agreed at the 30 June 2017 valuation and assuming that members will not live as long as previously anticipated. This was partly offset by an increase in the value of the liabilities due to a fall in interest rates over the period.

Changes since the 30 June 2019 interim assessment

The last Summary Funding Statement was issued in 2020 and explained the funding position at the 30 June 2019 interim assessment. Between 30 June 2019 and 30 June 2020, the funding shortfall increased from £7,751 million to £7,978 million. The increase in the deficit over the year was due to a fall in interest rates over the period, offset by a £400 million deficit contribution paid in June 2020, higher than assumed returns on the Scheme's assets and assuming that members will not live as long as previously anticipated.



Other information

The Pensions Act 2004 states that the Scheme Trustee 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 remaining solvent. The Trustee are generally required to provide members with the Scheme Actuary's statutory estimate of solvency, which considers the position in the event of the Scheme being discontinued.

The Scheme Actuary has assessed this solvency position 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 was estimated that at 30 June 2020 the assets of the Scheme would have met around 71% of the liabilities assessed on this basis.

However, in the unlikely event that BT became insolvent, there are additional protections which should be available to members — the Crown Guarantee and protection from the Pension Protection Fund (PPF).

- **Crown Guarantee:** On privatisation of BT plc in 1984, the Government provided the Scheme with a special protection in the form of a guarantee which provides that, in the unlikely event of a winding up of BT plc, the majority of any outstanding liabilities of BT plc to the Scheme would be met by the Government. Further information is available on the Scheme website at www.btps.co.uk
- **Pension Protection Fund (PPF):** The PPF was set up by the Government to protect individuals' pension benefits where a company becomes insolvent. 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.ppf.co.uk or by emailing information@ppf.co.uk or calling **0345 600 2541** (the PPF currently advise against using their postal address due to COVID-19).

Repayment to BT and modifications imposed by the Pensions Regulator

We are required to tell you if any payments have been made under section 37 of the Pensions Act 1995 (broadly payments of surplus) 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 or the calculation of the Scheme's funding position.

The Trustee reserves its position on the application of Part 3 of the Pensions Act 2004 to the Scheme.

The 2020 actuarial valuation was undertaken in compliance with the Pensions Act 2004 and the Rules of the Scheme. The existence of the Crown Guarantee was not taken into account in reaching agreement on the 2020 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 as at 30 June 2023. The valuation documentation has been submitted to the Pensions Regulator as required by legislation.

Please note:

The Scheme rules govern your benefits under the Scheme, and in the event of conflict between this communication and the Rules, the Rules take priority.

Issued by:

BT Pension Scheme Trustees Limited,
One America Square, 17 Crosswall, London EC3N 2LB.