BT Group

Pensions Briefing

29 June 2023

Forward looking statements caution

Certain information included in this announcement is forward looking and involves risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed or implied by forward looking statements. Forward looking statements cover all matters which are not historical facts and include, without limitation, projections relating to results of operations and financial conditions and the Company's plans and objectives for future operations. Forward looking statements can be identified by the use of forward looking terminology, including terms such as 'believes', 'estimates', 'anticipates', 'expects', 'forecasts', 'intends', 'plans', 'projects', 'goal', 'target', 'aim', 'may', 'will', 'would', 'could' or 'should' or, in each case, their negative or other variations or comparable terminology. Forward looking statements in this announcement are not guarantees of future performance. All forward looking statements in this announcement are based upon information known to the Company on the date of this announcement.

Accordingly, no assurance can be given that any particular expectation will be met and readers are cautioned not to place undue reliance on forward looking statements, which speak only at their respective dates. Additionally, forward looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Other than in accordance with its legal or regulatory obligations (including under the UK Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority), the Company undertakes no obligation to publicly update or revise any forward looking statement, whether as a result of new information, future events or otherwise. Nothing in this announcement shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.

Today's speakers

Neil Harris
Director, Corporate Finance

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Pensions and
Insurance Director

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Key messages

We use two methods to calculate our pension deficit:

- **IAS 19:** formulaic "best-estimate" measure; determines our balance sheet and used for rating agency metrics
- **Funding:** negotiated "prudent" measure; determines our cash payments

The BTPS is continuing to de-risk its asset strategy and is performing in line with the 2017 plan:

- BTPS accepts growth asset risk to benefit from higher expected returns
- BTPS actively considers alternative strategies with run-on currently viewed as most appropriate

The BTPS has scale and experience

- Scheme navigated the 2022 market conditions effectively
- No concerns raised from recent TPR review

The 2020 BTPS funding agreement provides a strong platform for 2023 valuation

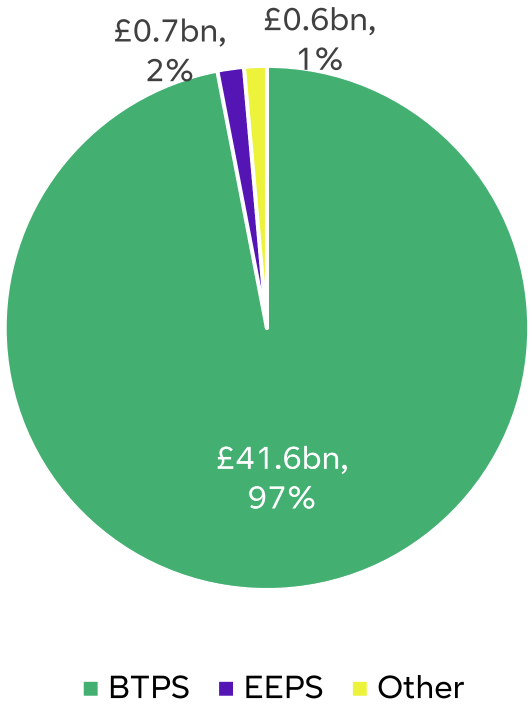
- the ABF switch-off and co-investment vehicle provide protection against future surpluses
- the downside stabiliser proactively deals with any increase in the deficit

Overview of BT's pension plans

BTPS forms the majority of BT's obligation

Defined Benefit ("DB")	BT Pension Scheme (BTPS)	▪ DB section closed to future benefit accrual in 2018 – 270,000 deferred members and pensioners
	EE Pension Scheme (EEPS) –DB section	▪ DB section closed to future benefit accrual in 2014
Defined Contribution ("DC")	Other global retirement arrangements	▪ DB and DC plans, in line with local markets and culture
	BT Retirement Saving Scheme (BTRSS)	▪ DC ▪ Contract-based arrangement operated by Standard Life ▪ 65,000 employees

BT Group IAS 19 liability as at 31 March 2023

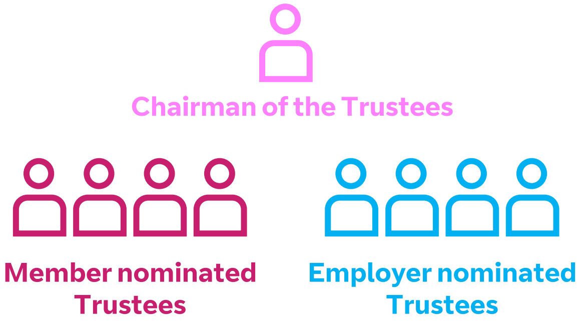


Source: BT Group plc Annual Report 2023

The BTPS is administered and managed by an independent Trustee

Trustee

- Trustee duties include:
  - acting in the best interests of beneficiaries
  - administering the Scheme in line with Scheme rules
  - acting prudently, responsibly and honestly
- Nine Trustee directors, appointed by BT
- Usually appointed for a three-year term and eligible for re-appointment



Key Trustee powers

- Set the investment strategy
  - BT consultation required
- Set assumptions for evaluating the funding deficit and set the level / timing of deficit contributions
  - BT agreement required

Trustee supported by

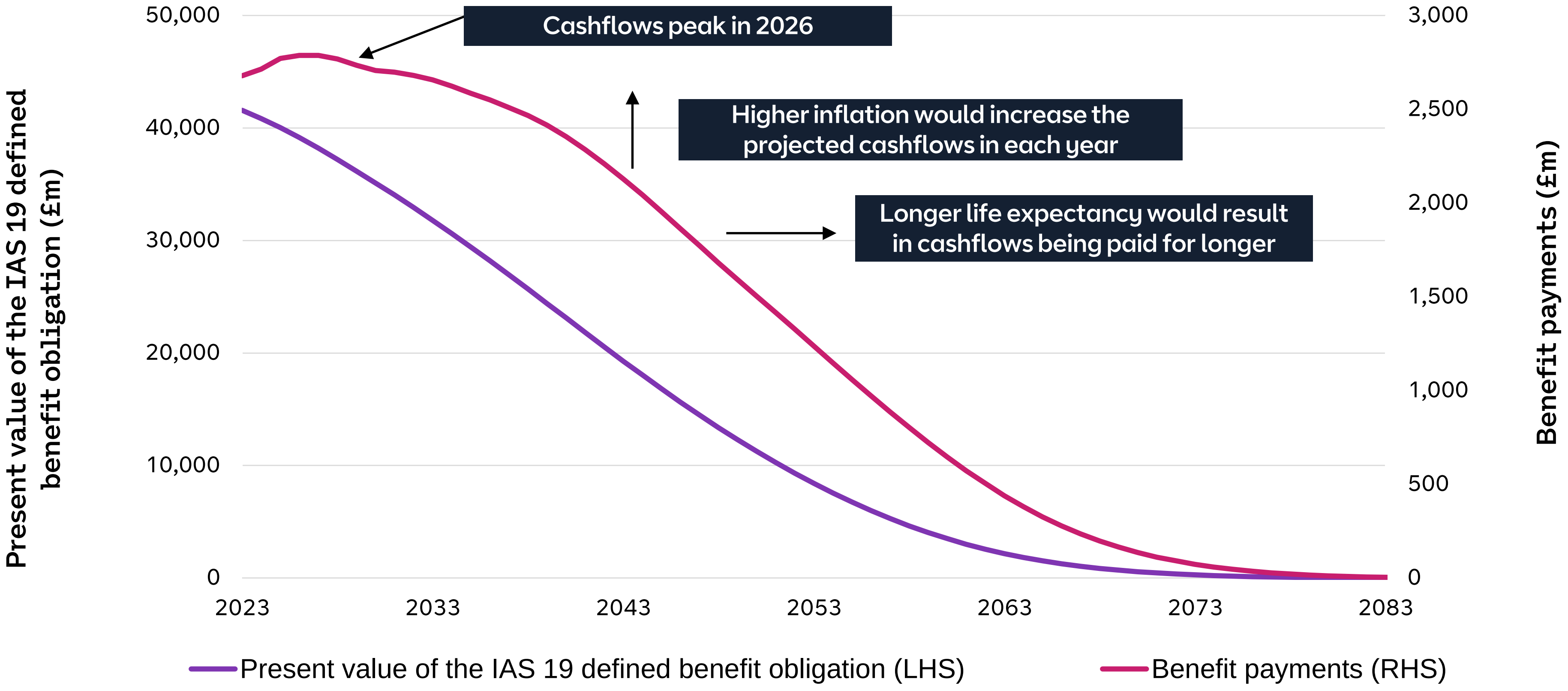
Brightwell (BTPSM)	Principal service provider (funding & fiduciary management, administration & other operational services)
Scheme Actuary	Carries out number of statutory roles, including performing triennial valuation
Independent advisers	Across a range of specialisms, including legal, covenant and investment

The Pensions Regulator (TPR) | Ensures scheme sponsors and pension schemes fulfil their duties to scheme members, e.g. intervenes if BT/Trustee can't agree funding deficit

Benefits from the BTPS are expected to be paid over more than 60 years

Projecting future expected benefit payments involves significant judgement about uncertain events. e.g.:

- inflation
- life expectancy



Two key methods to value our obligations

	IAS 19	Funding
Purpose	**Balance sheet in BT Group accounts**	**Setting cash payments**
Regulation	IFRS standards	2004 Pensions Act
Frequency	Semi-annually	At least every three years
Key assumptions		
Determined by	BT	BT and Trustee agreement
Discount rate	Yield curve based on AA corporate bonds	Yield curve reflecting prudent[1] return expected from BTPS assets
Inflation	Best estimate	Prudent overall approach[1]
Mortality	Best estimate	Prudent overall approach[1]
Asset value	**Fair value**	**Fair value**
BT Bonds	Included	Included
ABF[2]	Excluded	Included

[1] Prudence is not defined in legislation and is reviewed as part of each funding valuation. An increase in prudence would lead to higher liabilities and deficit

[2] Asset backed funding vehicle

BTPS has a diversified investment strategy with 33% invested in growth assets

31 Mar 2023 (£bn)[1]		Total
Growth (33%)	UK Listed equity	0.1
	Overseas developed equity	1.7
	Private equity	1.1
	Property	3.4
	Absolute return	0.9
	Non core credit	4.2
	Mature infrastructure	1.2
Liability matching, cash and other (67%)	UK government bonds	13.2
	Global investment grade credit	10.4
	Secure income assets	3.7
	Cash balances	3.0
	Insurance/derivative contracts	(5.0)
	Other	0.8
	Total	**38.7**

1 Source: BT Group plc Annual Report 2023, pg. 194

Private equity:

- Investments through Hermes GPE funds in companies that are not publicly traded

Property:

- Investments in office buildings, industrial parks, apartments, or retail complexes.
- Example: King's Cross estate

Absolute return:

- Investments in hedge funds providing diversification and performing well during periods of market stress

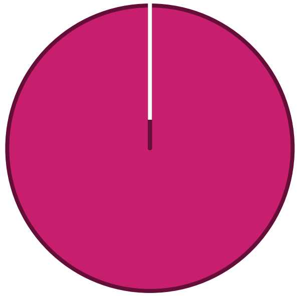
Non core credit:

- Investments in bonds and emerging market debt
- Delivering equity like returns with less risk over the last decade, as designed

Mature infrastructure:

- Investments in "real assets", which contain physical assets such as bridges, roads, highways, energy
- Example: Fallago Rig wind farm

c85% of assets valued as at 31 March and all assets valued each 30 June



100%

of assets valued at each 30 June annual update (for BTPS accounts)

c85%

of assets valued as at 31 March (for BT Group accounts)

- All other assets valued within 3 months of 31 March

c40%

of assets are unquoted investments, e.g. property

- valuation inputs not directly observable and require judgement

Assurance over the valuations

Asset valuations

- Valued in line with the latest market guidelines (e.g. RICS)
- Funds operate controls and audit processes. Directly held illiquid assets externally valued

Fiduciary manager review

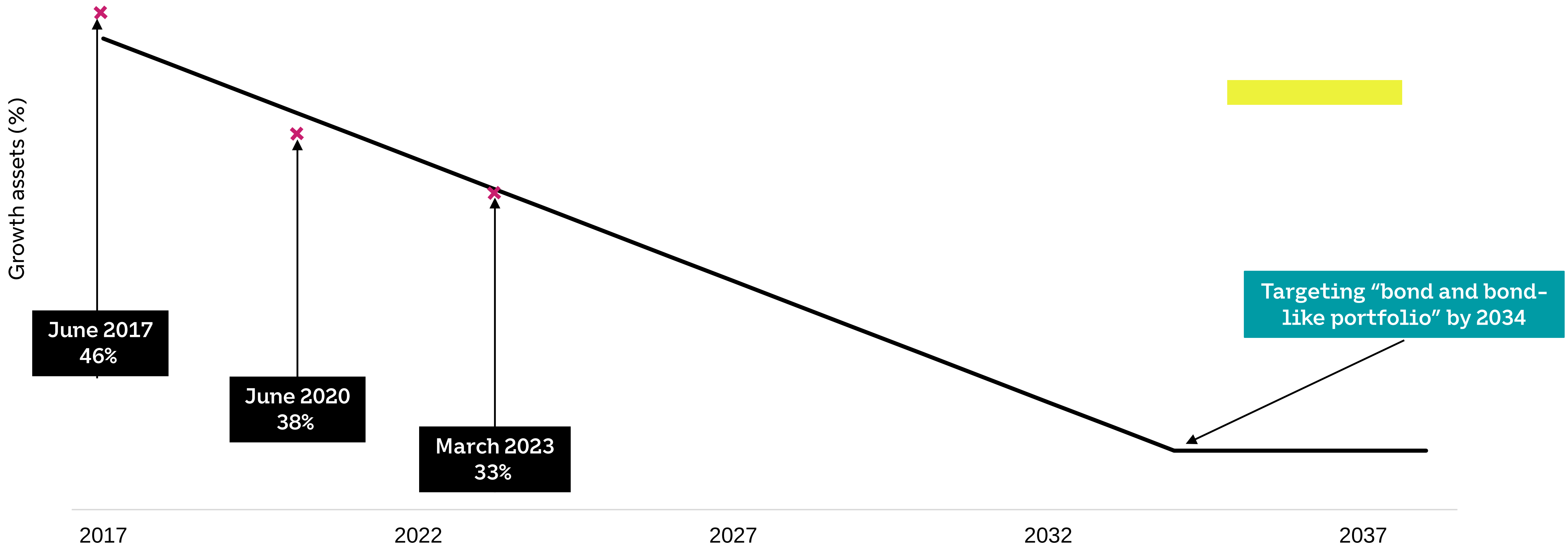
- Brightwell's controls, to ensure appropriate valuations, audited by BDO

Audited by KPMG

- For both BTPS and BT Group accounts

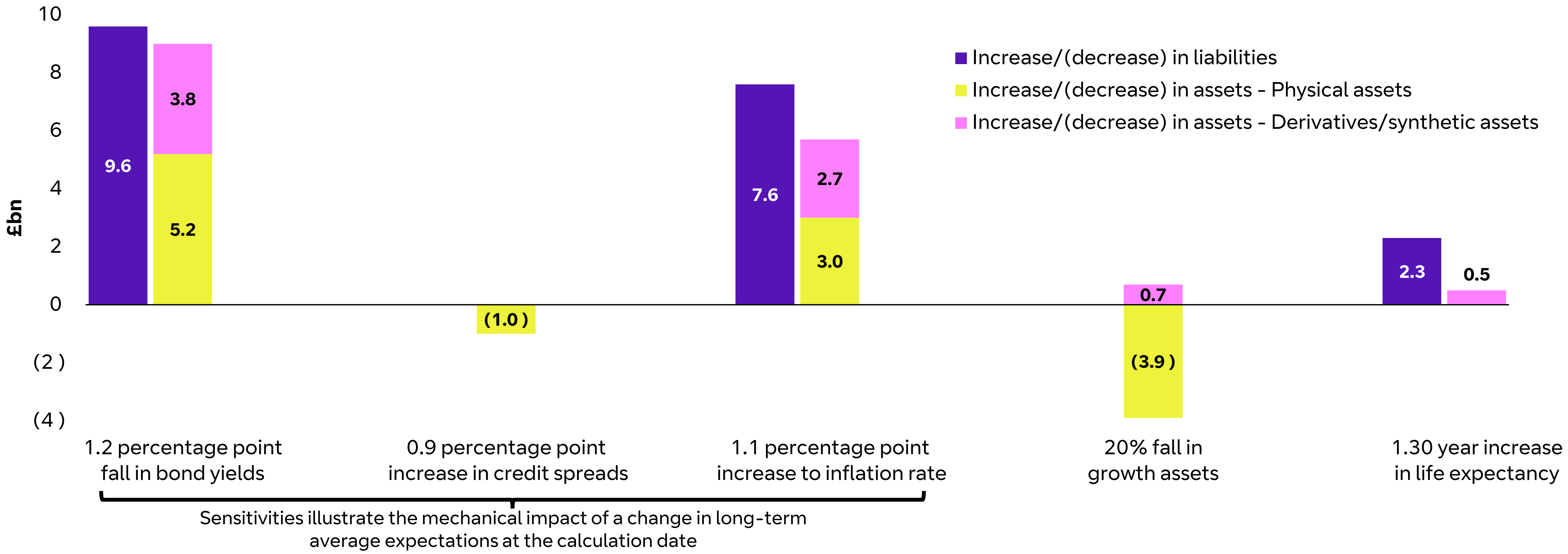
By 2034, the BTPS will be primarily invested in bond-like assets

The asset strategy assumes the BTPS is "run-on", i.e. all future member benefits are paid from the Scheme, using existing assets, future investment returns and BT contributions



Interest rates and inflation are well hedged on a funding basis

Scenarios expected to occur with 1-in-20 likelihood, based on the 30 June 2022 funding position



Note: The impact shown under each scenario looks at each event in isolation– in practice a combination of events could arise and the sensitivities shown are not additive or linear, e.g. the impact will be lower if the assets/liabilities are smaller.

Source: BT Group plc Annual Report 2023, pg. 198

BT's pension plans - recap

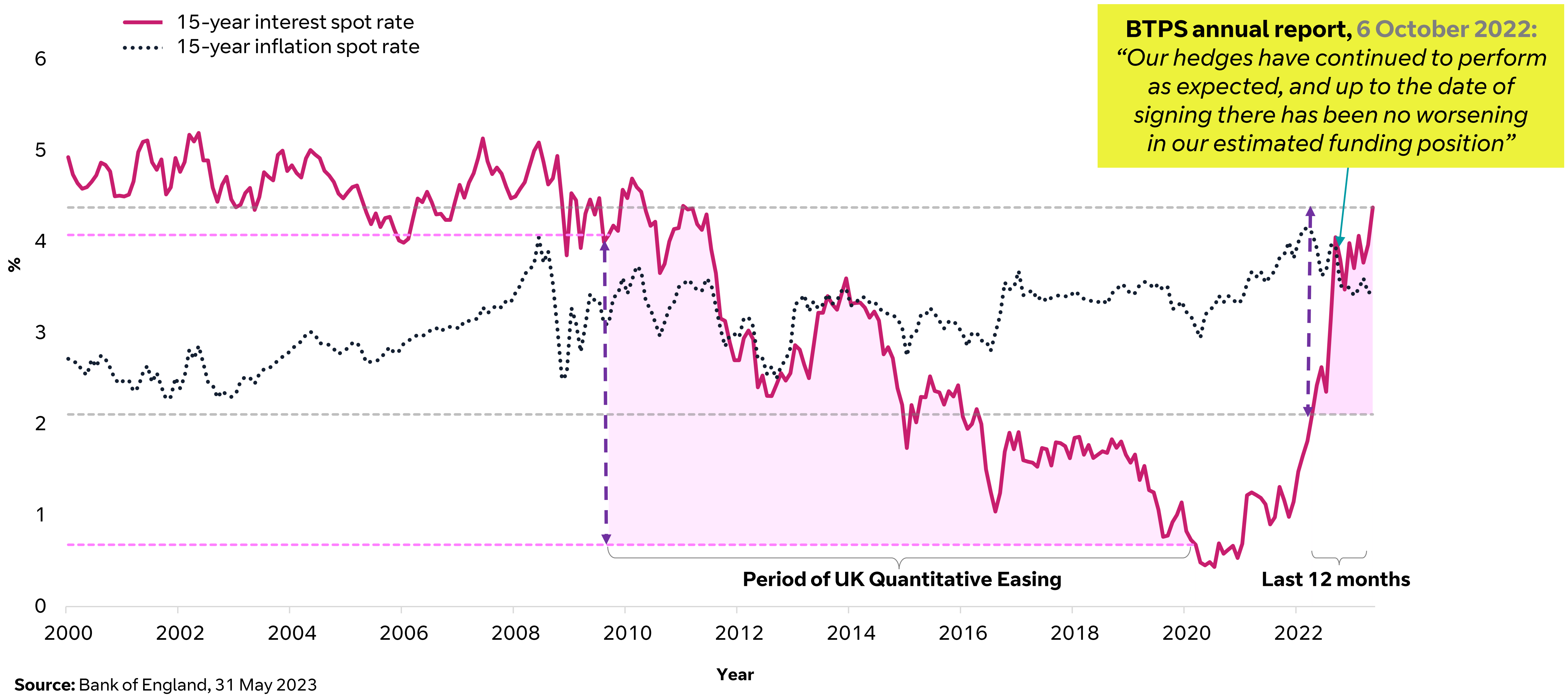
- The BT Pension Scheme forms around 97% of our liabilities

- The BTPS has a diversified investment strategy which de-risks over the period to 2034, and allows investment returns to continue playing a role in eliminating the deficit

- We use two measures to evaluate the pensions deficit – IAS 19 and funding

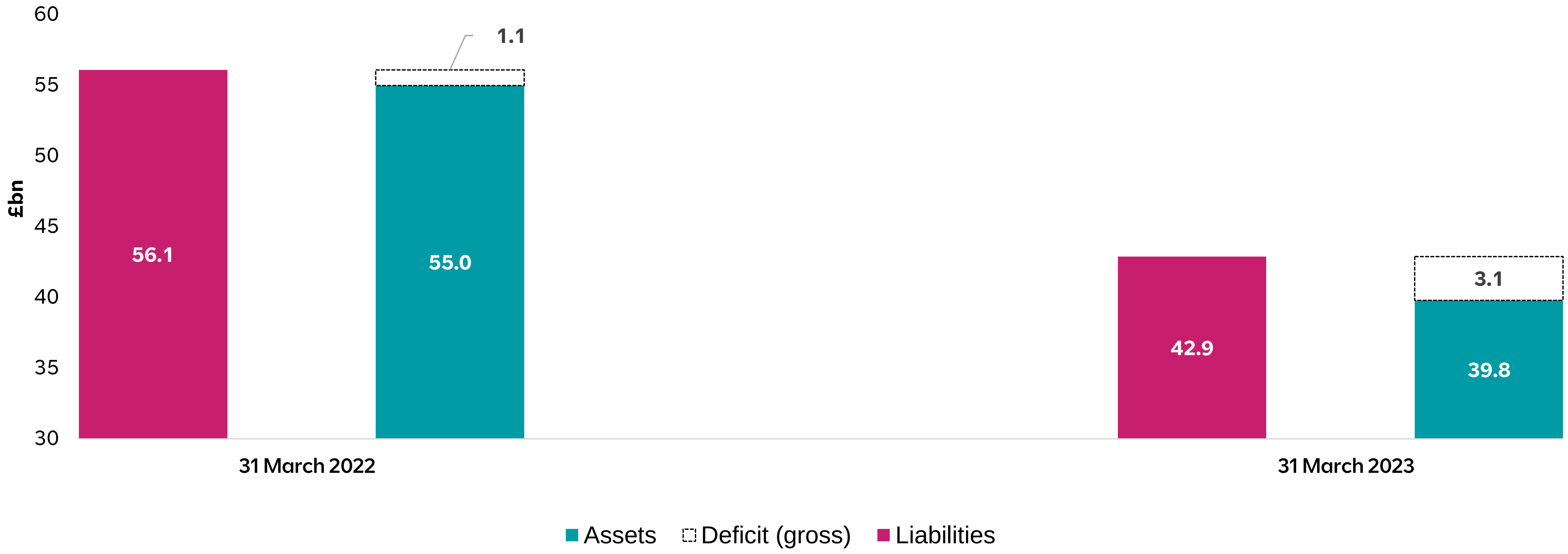
The last year

Significant movements in long-term interest rates were well managed by the BTPS



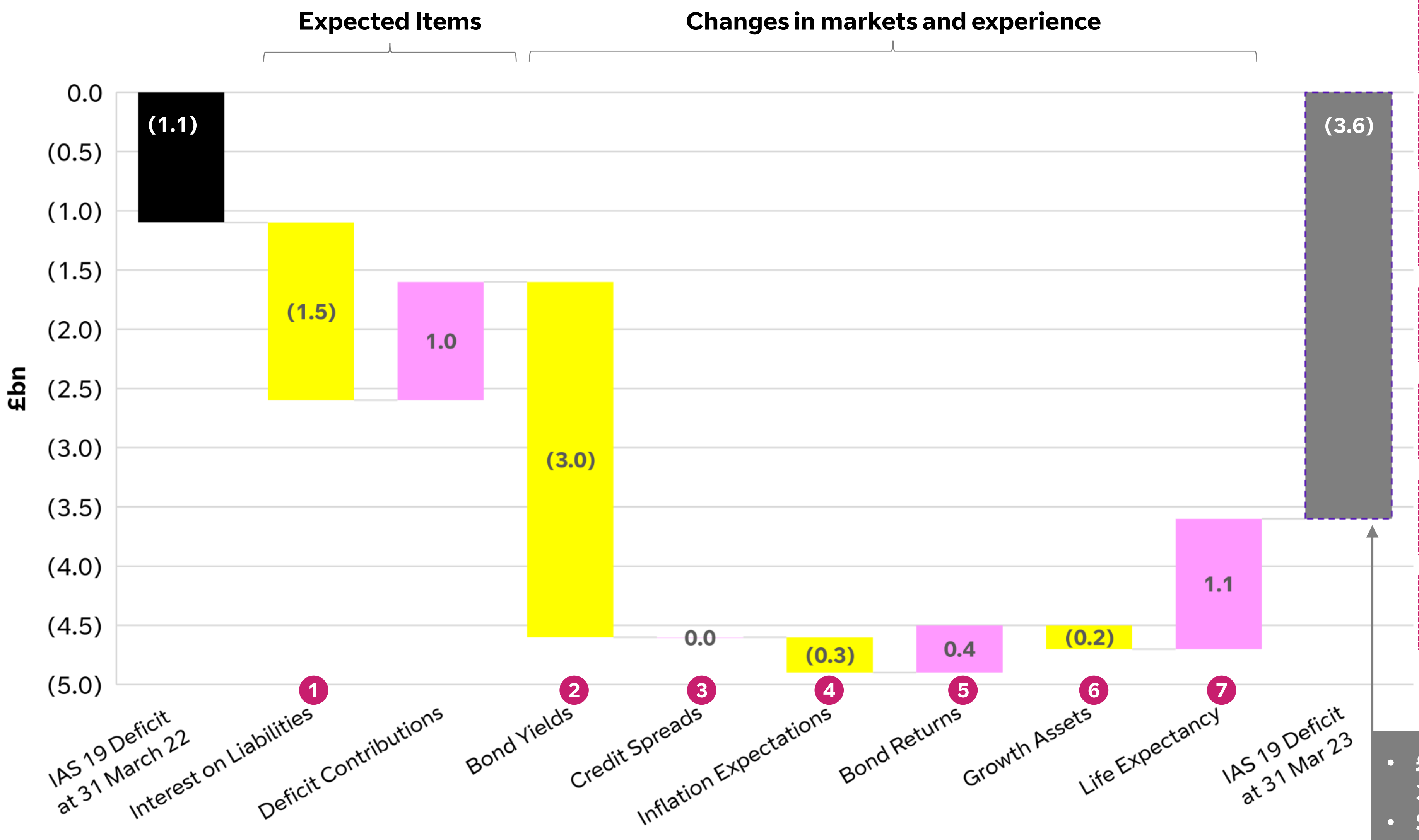
Source: Bank of England, 31 May 2023

The IAS 19 deficit increased to £3.1bn, as interest rates increased



Source: BT Group plc Annual Report 2023, pg. 191

Our published sensitivities can help provide an indication of the deficit



1. =£56.1bn x 2.75%
2. Bank of England: 2.0% increase
   Sensitivity: £1.2bn for a 0.8% reduction
3. Market indices: 0% increase
   Sensitivity: £3.9bn for a 0.7% increase
4. Bank of England: 0.5% fall
   Sensitivity: £0.3bn for a 0.6% increase
5. Bank of England: 1.2% (1year fwd rate)
   Sensitivity: £31.6bn matching assets
6. MSCI World (GBP) 1% fall
   Sensitivity: (£3.4bn) for a 20% fall
7. CMI[1]: 0.5 years fall
   Sensitivity: £2.1bn for a 1 year increase

- **£3.1bn IAS 19 deficit reported at 31 Mar 23**
- **Sensitivities overstate deficit by £0.5bn (i.e. <1% of March 22 assets)**

[1]Institute and Faculty of Actuaries – Continuous Mortality Investigation

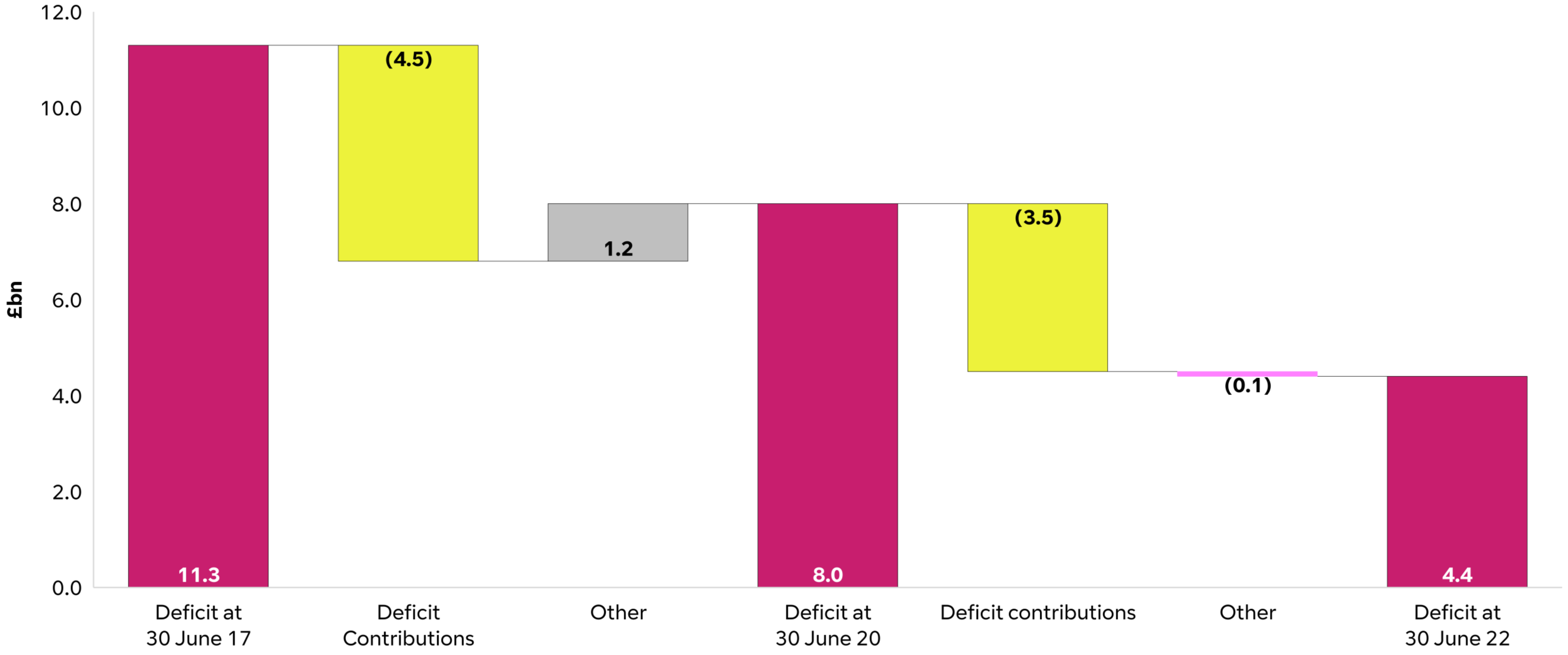
The last year - recap

- Significant interest rate movements led to higher IAS 19 deficit

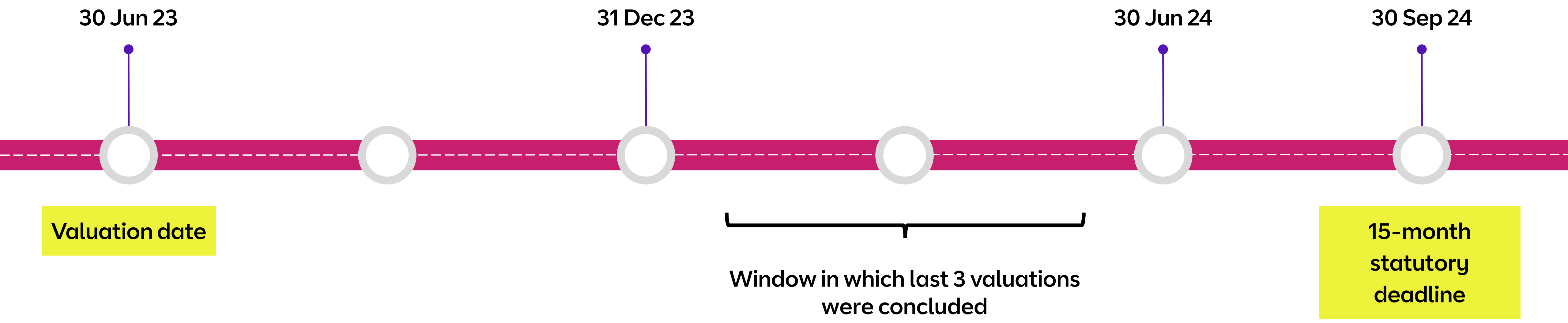
- Difficult market conditions were well managed by the BTPS

Looking ahead to the 2023 valuation

Contributions have significantly reduced the funding deficit since 2017



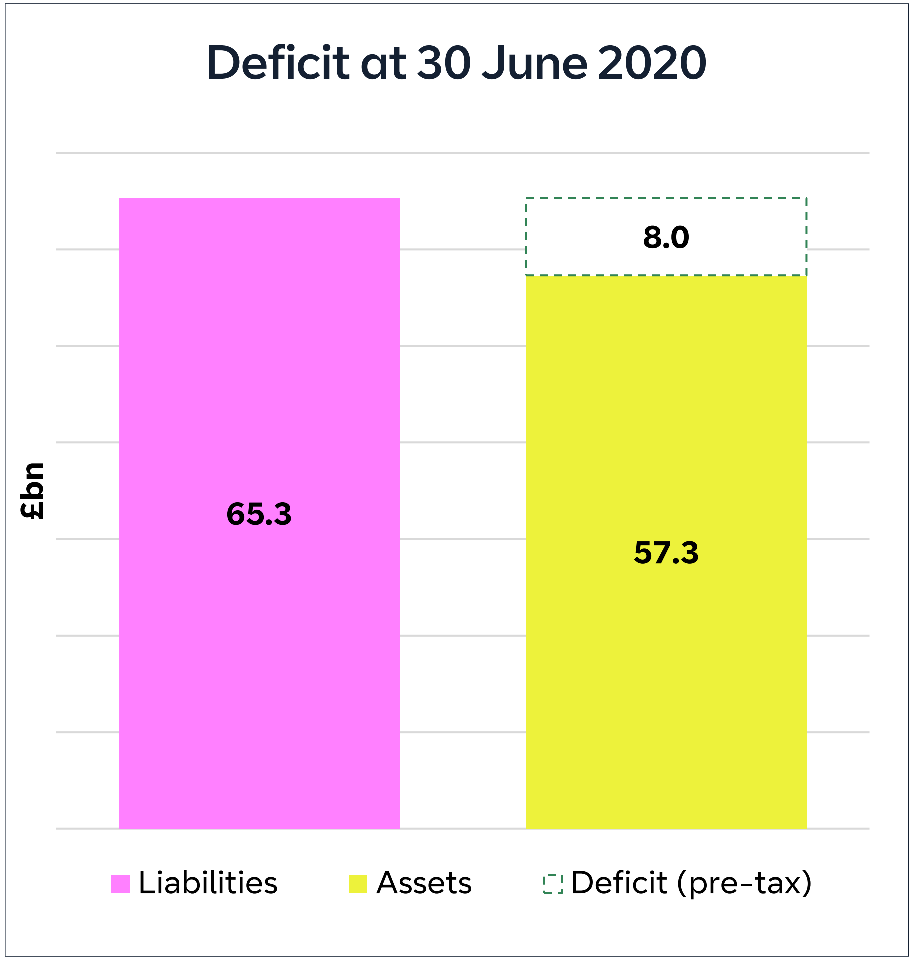
Funding valuation: a budgeting exercise carried out every three years

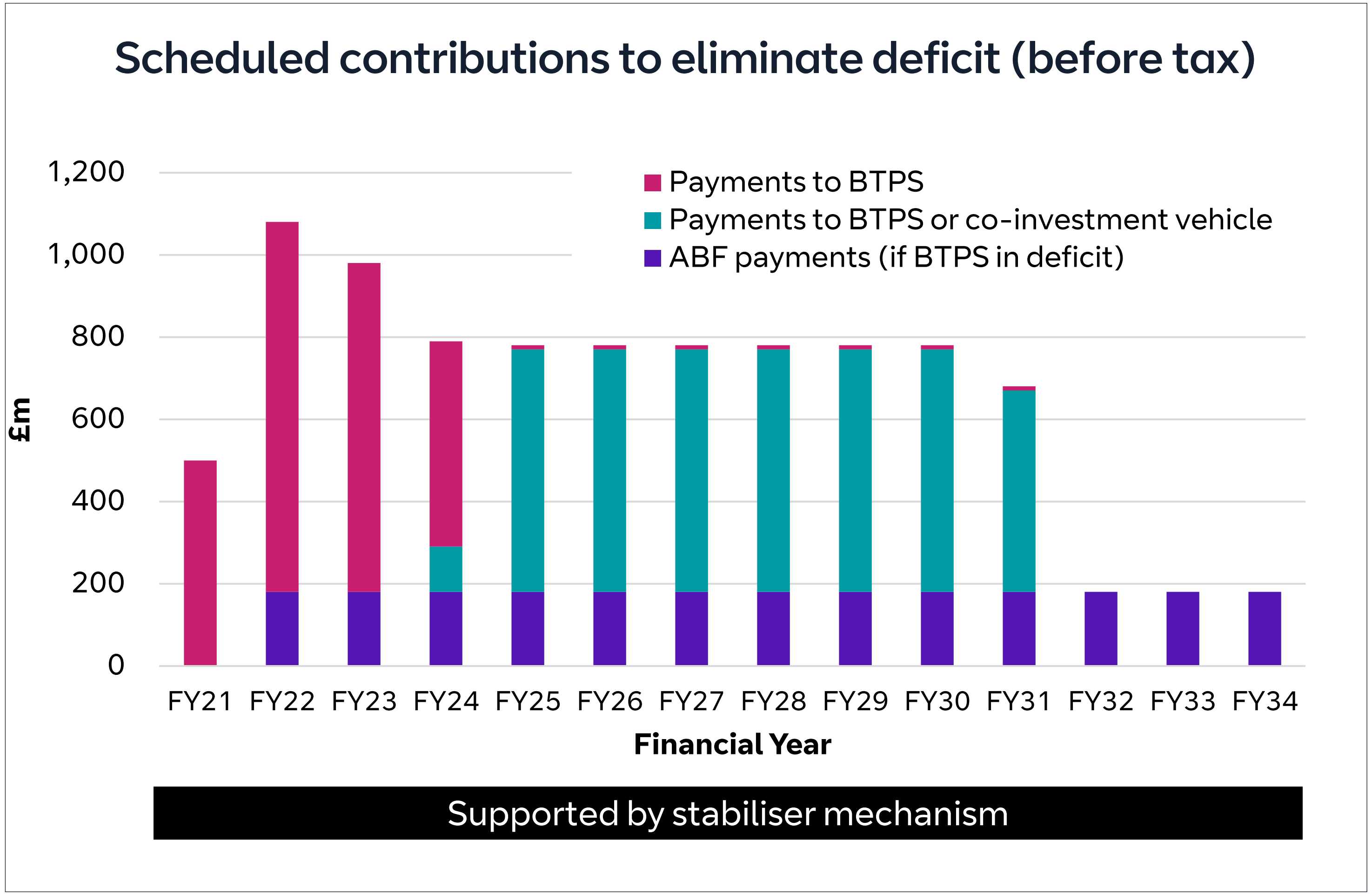


Steps include:

- collate and check membership data
- review company covenant
- determine any changes to assumptions / prudence level / approach
- member-by-member actuarial calculations using updated assumptions
- agree contribution schedule and any other legal protections
- valuation documents submitted to Pensions Regulator

The 2020 valuation agreement introduced an ABF and stabiliser mechanism





Source: BT Group plc Annual Report 2023, pg. 197

Source: BT

The previous valuation agreement forms a platform for the 2023 discussions

Asset-backed funding

- Payments of £180m pa secured on EE Limited
- Payments stop if BTPS fully funded at any 30 June

Co-investment vehicle

- Up to £4.2bn contribution
- Allows return of money to BT, if not needed by BTPS after 2034
- Invested as if part of overall BTPS portfolio
- Expect to use from FY24

Future funding commitments

- Additional payments of up to £200m pa if funding deficit >£1bn behind plan
- Payments stop once funding deficit is back on plan

Other protections

- Pensions legislation ensures corporate activity does not disadvantage DB pension schemes
- BTPS protection cover
  - Shareholder distributions
  - Corporate events
  - Negative pledge

2023 valuation recap

- 2020 valuation outcome is a solid platform for the 2023 valuation

- Aim to conclude on a similar timescale to recent valuations

Key messages

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Q&A